

INDIA BUILDS HER
WAR ECONOMY.

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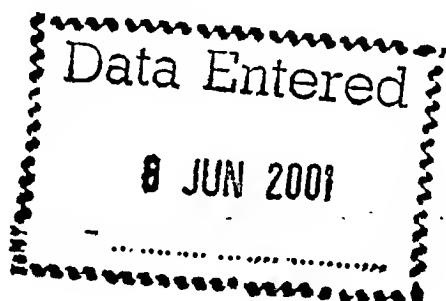
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TO
J. K. MEHTA
MY TEACHER, FRIEND AND COLLEAGUE

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CHAPTER I

JOINT STOCK ENTERPRISE

I. Upto 1939

India has not yet experienced an Industrial Revolution of the type known to the western world and Japan. This is so because conditions necessary for such an intensification of industrial progress have not yet obtained in our country. The policy of discriminating protection followed since 1923, the Swadeshi Movement which started in the early 20th century, and the occasional wars—the Crimean War, 1914-18 war, and the 1939 war—have been the only major factors in stimulating Indian industry. Nobody has ever planned for a systematic development of India's mineral and power resources. Moreover, in a country where people depend too much on the government for every thing the government policy has definitely discouraged industrialisation. It is true that we have made some progress as the number of 'factories' increased from 2936 in 1914 to 11,630 in 1939 and over the same period the number of workers in these factories increased from $9\frac{1}{2}$ lakhs to $17\frac{1}{2}$ lakhs. There has been a gradual and slow transformation from agricultural to manufacturing economy and now we export less of our raw materials,

which are converted into manufactured goods in our own country, than was the case ten years ago. Our national income has also increased. We have some large scale industries such as iron and steel, cotton textiles, jute, sugar, paper, cement, and coal. This might give an impression of great progress but the fact is that the industrial output per head of population is still very low and a very large proportion of industrial opportunities have not yet been exploited. The world war which started in September 1939 found the Indian industrial system very backward and defective.

It is necessary to summarise some chief characteristics of the pre-war industrial situation in our country in order to analyse future policy. The Indian industrialists have followed traditional lines of development. A very large share of Indian capital has flowed into trading as distinct from manufacturing enterprise. The profit motive in our country has been satisfied by earning money in a way which has proved derogatory to industrial advancement. Industrialists in India have not bothered themselves about the future of the nation so long as they could make profits by money lending, export and import business, and agency work. In recent years there have been exceptions to this tendency. J. N. Tata was the first industrialist, and there have been some more in recent years, not only to aim at making profits but also to vividly realise the necessity of a rapid industrial progress. But even today the average industrialist in India lacks this inspiration. Moreover, the pioneers of

Indian industry were mostly foreigners who naturally did not desire to develop industries which would have competed with those existing in their own native country. Their only interest was to make money and they followed the line of least resistance. In this way many useful lines of development were left unexploited. This deficiency could not be made up by the Indian industrialists because many of them have lacked independent and bold action. It is unfortunate that in our country, though it takes a very long time for some one to start a new industry, once a new factory has been set up, and there is a reasonable hope of making profits, the industrialists are not slow to crowd in. This happened to our cotton textiles and jute industries. Cement and paper have had a similar experience. Sugar has been the latest industry to suffer from this congestion. The pity is that the Indian industrialists have not yet realised the dangers of this herding and crowding.

These characteristics have led to at least two very undesirable results. First, our industries begin to suffer from over-production and excess capacity¹ at very low levels of production. The

¹ Excess capacity is the difference, in physical terms, between the maximum units of output the resources are capable of producing at lowest average costs per unit, and what they actually produce. The concept of *Excess Capacity* has been used in two senses. One, in the sense of fixed plant or equipment 'lying idle.' This is the businessman's use of it and applies only to the short period. It is in this sense that we shall use the term in this book. Second, by excess capacity

jute industry has long suffered from it. The Government of India correctly estimated in 1934, though this claim was contested by the Indian Jute Mills Association,¹ that the demand for jute goods could possibly be supplied by a quarter of the machinery then available and the highest demand ever reached so far could be satisfied by a third of the equipment. So that there was three-fourths to two-thirds excess capacity in the jute industry. No authoritative or reliable estimates are available about other industries but the information about surplus unsold stocks or the equipment actually idle gives some idea of excess capacity. In 1939 the unsold stocks of sugar exceeded 4 lakh tons out of a total production of $10\frac{1}{2}$ lakh tons. The production capacity of the Indian cement industry expanded to nearly $2\frac{1}{2}$ lakh tons by 1939 though only 60 to 65 per cent of this was utilised to supply the market demand in India and abroad. According to an estimate of the Millowners' Association (Bombay), out of 389 equipped cotton mills in the country 22 were partially or completely idle in the year ending August 1939. The production of cloth amounted to 4250 million yards out of which much stock remained unsold. It is also worth

we understand a situation when by rearranging the factors of production, we can secure production, which so far it was not, at minimum average cost, and thus add to the National Dividend. This is a long run view. cf. Prof. J. M. Cassel's, *Excess Capacity and Monopolistic Competition*, in the *Quarterly Journal of Economics*, May 1937.

¹ Capital, November 7, 1935, pp. 774-5.

noticing that in July 1939 the Southern Indian Mills Association decided to recommend to its members to curtail production by 50 per cent of the then output.¹ All these facts clearly indicate the existence of excess capacity in some of the major Indian industries. During the three years, 1940 to 1942, this excess capacity has to some extent been reduced but some industries are suffering from it even today. This tendency to overproduction is further assisted by the low purchasing power of the Indian masses. The effective demand of the Indian masses is very low and the Indian factories are faced with huge stocks—overproduction—which they cannot sell even when they are turning out only small quantities. The effective demand is low due to the fact that the income of a vast majority of people is small so that they can hardly buy any factory made goods at all. They have by necessity to confine themselves to locally made goods. Further, the standard of living of most of those people who have wealth is so low that the fact of their higher income does not give the necessary stimulus to our industry. Apart from this, whatever market there is has to be shared with foreign producers. The net result of this is that the Indian industry can sell only a very small quantity of output to its own internal market. Moreover, a craze for provincial self-sufficiency in matters of industrial production has become visible in India during the last few years. Bengal, Madras, and

¹ Capital, August 3, 1939, p. 168.

Mysore have actually started many new sugar factories while the existing factories in the U. P. and Bihar were more than enough to supply the entire demand. Similarly, Bengal has started many new cotton factories in spite of the fact that more than a score of the existing mills in Bombay, Ahmedabad, U. P., and C. P. have been idle. This also adds to excess capacity. The great economic disadvantage of such a situation is that, because of a shortage of demand relatively to the existing equipment, all the factories or at least some cannot produce at the optimum or most efficient scale so that the costs of production are inevitably higher and the competitive power of the industry is consequently poor. The redundant capacity hangs as a mill-stone round the neck of Indian industry. The overproduction indicates waste of resources and a lack of planned development, such as we have witnessed in India all these years. A second result is the existence of some awkward gaps in the Indian industrial structure. Even as late as 1939 we did not have machine manufacturing, shipbuilding, automobile, aeroplane, and aluminium smelting industries to cite only a few examples. We also remained very deficient in heavy chemicals, electrical and general engineering, machine and tool, and certain sections of iron and steel industries. A few of them have now been started but no attention was paid to them for 21 years between 1918 and 1939. The laissez faire policy of the government has helped to perpetuate these gaps, which have proved so detrimental to our war effort.

A final characteristic of Indian industry is that most of our factories, especially in industries due to Indian enterprise such as cotton textiles and sugar, have suffered from faulty lay-outs and the use of obsolete and out-of-date machinery. In the post-war boom of 1920's, the Indian cotton manufacturers purchased and set up second hand machinery which was rejected by Lancashire. The factory lay-out in most cases has been very defective. As Prof. Dannel H. Buchanan has correctly pointed out the cotton manufacturers imitated Lancashire and Manchester without care for difference in local conditions and erected 3 or 4 storied buildings which have a great disadvantage in India with regard to light, ventilation, and humidity.¹ Similarly, in the sugar industry the average extraction of juice is very poor because of unscientific and crowded extension of plant and buildings, ignorance of milling methods, and absence of devices to prepare cane before milling. The expansion of old factories in most cases has been haphazard and

¹ cf. Prof. D. H. Buchanan, 'The Development of Capitalistic Enterprise in India,' 1934, pp. 203-4. The technical equipment of the Indian cotton textile industry is defective even today in spite of the remarks of Rt. Hon'ble Mr. Tom Shaw which he made in his Report that 'taking the factories from the point of view of height of rooms, space, and ventilation, they are at least equal to the factories of Europe. The machinery is, with very few exceptions, of the latest and most up-to-date type.' (Capital, August 26, 1928, p. 902). This must, however, be admitted that there do exist some thoroughly up-to-date factories in India, but unfortunately they are none too numerous.

crowded leading to higher costs.¹ The technical backwardness of this industry assumes a far greater importance when we remember that sugar is our latest and most proud enterprise. The Indian Tariff Board on Paper Industry² came to the conclusion that much of the machinery employed by the paper mills is old if not positively obsolete and improvement in the quality of paper is to some extent dependent on its replacement by new and upto-date machinery. Many other similar examples could be given. Moreover in India,³ as in every other capitalist country at least in its early stage, the location of industry has been unscientific and production has not always been carried on in the most efficient (optimum) units. There has also been an absence of systematic research and scientific technical training in many of our industries. These backward conditions raise the costs of production, prevent a quick increase of output, and make adjustment to new conditions more difficult.

2. The War Stimulus

It is, therefore, not surprising that with these characteristics the world war which started in Sep-

¹ cf. Dr. Francis Maxwell's article in the Capital Jubilee Number, November 3, 1938.

² Report, 1938, p. 31.

³ For a detailed study of this aspect consult P. S. Locanathan, *Industrial Organisation of India*, 1935, esp. pp. 50-134; Khagendra N. Sen, *Economic Reconstruction of India*, 1939, pp. 211-280; Benoy Kumar Sarkar, *Economic Development*, Vol. II, 1938, pp. 221-260.

tember 1939 found the Indian industrial system very backward. Indian industry took much time to give effective assistance to the allied war effort and the system could be swung into activity, though by no chance very satisfactory even at the end of three years of war, only after two expert bodies—The Roger Mission and the American Technical Mission under Dr. Grady—did their best to infuse life into a dying body. Even they could not do much.

The world war, however, has greatly stimulated Indian industry. This is due, in the first place, to a fall in the imports of many foreign goods. A gap has been created in the supply of many commodities which has to be filled as best as possible by Indian industries.

SOME IMPORTS INTO INDIA

(Lakhs of rupees)

	1938-39	1940-41	1941-42	1942-43
Cotton manufactures	1415	1135	679	137
Silk yarn and manufactures	132	96	68	1
Apparel	47	34	32	12
Furniture, cabinet-ware & wood manufactures ..	45	41	18	7
Glass and earthenware	164	117	101	36
Paper, pasteboard and stationery	390	451	407	216

	1938-39	1940-41	1941-42	1942-43
Paper making materials	27	13	11	3
Toys etc.	37	20	*	*
Soap	22	18	*	*
Boots and shoes . .	15	3	*	*
Cement	10	5	*	*
Hardware	257	206	218	*
Machinery	1972	1183	1373	1053

* not yet available.

This table only gives a part picture. It does not include imports on government account which have increased substantially during the war period. It also does not include many other commodities which enter into India's import trade, but the table clearly shows the nature of stimulus which the falling imports have given to Indian industry. Our paper, match, glass, furniture, leather goods, soap, and toilet industries have especially benefited on this account. The fall in imports is due to many factors. Because of the war, there has been a reduction in the shipping space available for the transport of goods. A very large portion of the merchandise marine has been commandeered for war work. The risk factor which has led to longer routes and higher insurance and other charges has increased the price and thereby discouraged imports. Moreover, the exporting countries are now busy producing war goods and very little productive capacity can be spared for

non-military use. There is also a shortage of foreign exchange and it can only be granted for essential commodities. The control of foreign trade in India and in the exporting countries has also discouraged trade in non-essential goods. Whatever the other consequences, these gaps in the supply of many commodities have given a welcome opportunity to Indian industry. Secondly, especially after the entry of Russia and then Japan into the war, India has become an important source of supplies not only to Russia, China, and the Near East but also to distant theatres of war. It has, therefore, become necessary to make as full a use of Indian industrial capacity as possible. A measure of the stimulus imparted to Indian industry is afforded by the value of purchases made by the Supply Department from the outbreak of war to the end of December 1941, amounting to Rs. 230 crores, classified as follows:—

	<i>Crore Rupees</i>
Engineering, Hardware, Miscellaneous etc. ..	97.67
Cotton Textiles	50.41
Woollen Materials	17.55
Other textiles	28.81
Foodstuffs	16.15
Leather Materials	10.18
Timber and Woodware	9.20
<hr/>	
TOTAL Rs. ..	229.97 Crores.

The aggregate value of contracts to the end of December 1942 totalled Rs. 454.5 crores. Looking at it from a different angle we find that the

government takes nearly the whole output of the woollen industry, the iron and steel industry, aircraft and shipbuilding industries, and the munition factories. It takes nearly 18 to 20 per cent of the total output of the jute mills.¹ A conference of the Cotton Textile Advisory Panel held in Bombay in the middle of 1942 decided to place 35 per cent of the output of cotton textile industry, as against 20 per cent so far, at the disposal of the Government of India.² The disposal of the output of rubber goods industries, machine and tools, and building materials has been controlled by the government. Indian industry has its hands full and is face to face with unprecedented opportunity for further development. Finally, with European countries under German heel and the East menaced by Japan, India got a splendid opportunity, marred only by the difficulties of transport, to capture markets in China, Iran, Iraq, Arabia, Egypt, Afghanistan, the U. S. A., and countries in the British Empire. Our exports (including re-exports) increased from Rs. 169.22 crores in 1938-39 to Rs. 213.57 crores in 1939-40, 198.71 crores in 1940-41, and Rs. 252.55 crores in 1941-42. The increased exports have especially benefited our cotton textile, jute, cement, chemical, and tea industries. The Indian sugar industry has not yet benefited but prospects for the future are not bad.

¹ Capital, July 2, 1942, p. 15.

² Capital, July 30, 1942, p. 168. Subsequently the Cotton Mills devoted nearly 60% of their capacity for war work.

The war from the point of view of Indian industry, however, has not been an unmixed blessing. It is true that foreign competition in the Indian market has been cut off and the demand for Indian made goods has increased, but this is not enough. The war, in addition to the difficulties of transport which we have already mentioned, has imposed certain handicaps which did not exist before. First, the progress of Indian industrialisation, as is natural, depends on the supply of machinery and technical equipment. We unfortunately do not manufacture much of these ourselves, and before the war we could easily import them, but now due to the war the imports of machinery have declined from Rs. 19.72 crores in 1938-39 to Rs. 10.5 crores in 1942-43. Supplies have been received from America under the Lease-Lend arrangement, information about which is not included in these figures, but the expansion of Indian industry has been greatly checked by a shortage of machinery. We have suffered a good deal on account of the shortsightedness of Indian industrialists and the government in neglecting this vital key industry. Secondly, we have depended upon foreign technicians and engineers some of whom were Germans. These have been interned due to the war and their place has not yet been properly filled by English, Australian, and American technicians who have come to India in increasing numbers since the war started. Finally, though Indian industry is producing a much larger quantity of goods, the profits have not increased proportionately partly because

the cost of raw materials has increased and partly because higher wages (including dearness allowances) have now to be paid. Moreover, the Excess Profits Tax at the rate of 66 $\frac{2}{3}$ per cent, which is expected to amount to Rs. 40 crores in 1942-43, takes away a good share of the higher profits. Such increases in the costs of production and deductions from net profits have damped the ardour of Indian industrialists. These reactions have to be placed on the debit side of the war stimulus. Indian industry has benefited from this war but not so much as was expected and desired by many of its well-wishers.

3. Some Existing Industries: 1939—1942.

Cotton Textiles. The year 1939 for the Indian cotton textile industry started with depression, the 1937-38 boom having exhausted itself. Night shifts were stopped in some mills, many looms and spindles became idle and the industry was struggling to keep its head above water.¹ The declaration of war changed the situation. Cotton manufacturers, relying on their experience of the 1914-18 war, expected increased prosperity and there developed a hectic boom in the first four months of the war. Goods exchanged hands at inflated

¹ In January 1938 total stocks of yarn and cloth at Bombay were 19,000 and 65,000 bales respectively but at the end of January 1939 the figures were more than doubled. The chain index of profits (cf. Review of Trade of India, 1940-41, p. 42) after having risen to 208.3 in 1938 (Base 1928=100) declined to 156.8 in 1939.

prices. Production was also increased. The index number of wholesale prices rose from 97 in August to 135 in December 1939. But this speculative boom soon died away as it was not supported by an increase in consumers' demand. The basis of speculative activity was the hope of the cotton interests that, like the last war, the mere declaration of war and the subsequent fall in imports will automatically increase the offtake of the mill industry. This hope was soon frustrated. The prices slumped and the industry was depressed, the index number of wholesale prices having declined by gradual stages from 131 in January to 117 in August 1940. Though the speculative boom broke away the industry did not remain depressed for long and the autumn of 1940 brought increased activity, which persisted for more than a year and the industry enjoyed genuine prosperity from September 1940 to the end of December 1941. The year 1942, except for temporary setbacks, pushed the industry into greater activity and higher profits.

This late arrival of prosperity is due to the fact that the present war has benefited the Indian cotton textile industry in a different way than the 1914-18 world war. In 1914 the Indian industry supplied only 20 per cent of the home demand and a fall in imports gave it a splendid opportunity to fill in the gap, but in 1939 there was not much possibility of this as the Indian mills already supplied more than 85 per cent of the internal demand. In 1940 the stimulus has come from huge government orders and rising exports, while the fall in imports has played

only a minor role. It naturally took some time before government orders could be placed and exports increased. In the beginning, upto the middle of 1940, only 8 to 10 per cent of machinery was utilised for war work but it had soon to be increased. We are now passing through a 'total war' and the regimentation of economic resources plays a very important part. Moreover, this time India is a far more valuable source of supplies to the allied war effort than ever in the past. At present the cotton textile industry, is devoting 60 per cent of its machinery to war work. The government orders for such things as khaki drill, khaki twill, mosquito netting, towelling, flannel, hospital sheets, web equipment, dosuti (for tents), canvas requirements, anti-gas cloth, gauze, bandage cloth, and lint have been the chief cause of feverish activity in the cotton mills. Due to the war, the export market has also become more important than at any time in the past. The Indian mills are called upon to supply goods to Africa, Australia, New Zealand, Egypt, Afghanistan and China which markets were formerly supplied by British, Chinese and Japanese mills. The exports of cotton goods in 1941-42 amounted to 772 million yards, which is twice as big as that of the previous year, $3\frac{1}{2}$ times that of 1939-40, and $4\frac{1}{2}$ times the exports of 1938-39.

In 1941-42, 4493 5 million yards of piecegoods were manufactured, marking an increase of more than 224 million yards over 1940-41 and more than 481 million yards over 1939-40. The production in 1942-43 is provisionally estimated to amount to

3979 million yards, which is considerably lower than the last year's total. The mill consumption of Indian cotton in India increased to 3.9 million bales (400 lbs. each) in 1941-42 as compared to 3.3 million bales in the previous year and 3 million bales in 1939-40. The share prices and profits reveal a similar picture. Several companies in Bombay, who were unable to pay dividends in the past were able to make a distribution to the shareholders whilst companies like Bombay Dyeings and Gokaks declared interim dividends.¹ The average dividends of cotton mill companies increased to 14.44 per cent per annum in 1941 as compared to 10.88 per cent in 1940, 10.50 per cent in 1939, and 11.47 per cent in 1938.² The average dividend is higher in 1941 even as compared to the 1938 boom. The cotton industry has enjoyed unprecedented prosperity.

There was, however, a set-back in December 1941 and conditions remained disturbed in the first eight months of 1942. Early in the year, because of Japanese victories in the Pacific, weak holders liquidated their stocks, orders from Rangoon, Calcutta and other centres were cancelled,

¹ Investor's Encyclopaedia, 1942. - (Kothari and Sons, Madras).

² See for cotton and other industries, the Author's Contribution, "Indian Joint Stock Enterprise: Wartime Trend of Dividends" in Capital's Annual Supplement 1942, (issue dated Dec. 23, 1942) pp. 59-60.

people had a tendency to wait and watch. In subsequent months there was an exodus of labourers from industrial areas due to an imaginary fear of attack. Conditions were gradually returning to normality when in August 1942 the Indian National Congress launched the mass civil disobedience movement and work was dislocated. Prices of manufactured goods slumped, night shifts were stopped at some places, and many looms and spindles were forced into idleness. It was with some difficulty that the industry recovered from the shock.

Jute Industry. The jute industry has been less fortunate than the cotton textiles. The two periods of prosperity have been from September 1939 to January 1940 and from April 1941 to the middle of February 1942. Even in these periods the activity has not been so marked as in the case of cotton textiles. The rest of the time there has been depression, which has sometimes been very acute and widespread. All these years the prosperity of the jute industry has depended upon the prospects of receiving government orders, supplying the war requirements of other countries, and the availability of transport and shipping facilities for carrying goods to the market. These have been subject to sudden and big changes in the present war.

JUTE MANUFACTURES

(In thousand tons)

		1938-39	1939-40	1940-41	1941-42
Production	... ..	1,222	1,277	1,108	1,259
Exports	... ..	956	1,078	924	893

The manufacture of jute goods (including yarn and twist) amounted to $1\frac{1}{4}$ million tons in 1941-42, which though slightly less than that of 1939-40, marks an increase of 12 per cent over 1940-41. The production in 1942-43, however, declined to a provisionally estimated total of 1.0 million tons. The jute industry devotes only 18 to 20 per cent of its output to direct government orders. The industry has, however, undertaken some special war work. The Indian Central Jute Committee, in a recent bulletin, pointed out that four different types of canvas and jute carpets are being produced by Indian jute mills in addition to A. R. P. black-out materials. Paperlined and roofing materials are produced by some mills. Some are prepared to do finishing for mills outside their groups. Certain mills can provide rot-proofing and others can undertake water-proofing or fire-proofing. Dyed or polished yarn and twine are also made in some jute mills, many of which are also prepared to make over 9 and 11 porter hessians and to do special sewing.¹ These are valuable war-time developments.²

¹ Indian Finance, August 1, 1942, p. 197.

² Some capacity in Jute mills has also been devoted to the production of tools and parts of armaments.

JUTE MILLS HOURS OF WORK 1939-1943¹

Period	No. of hrs. worked per week		
March 15, 1939 to November, 1939	45 (a)
November, 1939 to April 8, 1940	60
April 8, 1940 to April 19, 1940	54
April 19, 1940 to September 1, 1941	45 (b)
September 1, 1941 to October 13, 1941	50
October 13, 1941 to November 8, 1941	54
November 8, 1941 to May 18, 1942	60
May 18, 1942 to March 13, 1943	54 (c)
March 13, 1943 to May 17, 1943	60 (d)
May 17, 1943 to June 14, 1943	54 (e)

¹ The table refers only to mills in the membership of the Indian Jute Mills Association, which, however, embraces almost all the mills.

(a) The industry suffered chaotic conditions for more than two years before March 15, 1939, when under a new Agreement it proposed to work 40 to 54 hours a week. Under a supplementary agreement from 31st July, 1939 the hours were increased to 45 and it was proposed to keep 20 per cent hessian and 7½ per cent sacking looms sealed. This was the position at the outbreak of war in Sept. 1939, after which hours were gradually increased to 54 and then to 60.

(b) Mills remained closed for one week in the month from Sept. 1940 to January 1941 (both inclusive).

(c) 10 per cent of the looms have also been sealed from May 18, 1942.

(d) This increased activity for two months has been caused by a huge U.S.A. Government order which had to be supplied at this time.

The Indian jute mill industry is better organised than most other industries in our country. The number of hours worked per week by mills in the membership of the I. J. M. A. gives a fairly accurate idea of the conditions in this industry, though with a certain amount of time-lag. The other indicators, as usual, are the wholesale prices of jute goods, the monthly figures of production, the position of mill stocks, the condition of profits, and the changes in the value of jute mill shares.

The jute mill industry, after more than two years of stagnation, revived in the beginning of 1939. The agreement about the hours of work, the efforts of the Bengal Government to control the cultivation of jute, and the government orders for sandbags received in February 1939 were the chief causes. But these forces had spent themselves out by the middle of July and the industry was preparing to face bad times when the war came as a godsent gift. The war was expected to increase the demand and the government actually placed orders for 500 million bags in November 1939. Production was stimulated. The industry had good time from September 1939 to the middle of January 1940. The index number of wholesale prices for manufactured goods increased from 79 in August to 172 in December 1939. The hours of work were

(e) 10 percent of the looms remained sealed. But as from June 14, 1943 though the mills still worked 54 hours all the looms were unsealed because another U.S.A. order was received by this time.

also gradually increased and 60 hours were worked from the middle of November 1939. The monthly output of jute goods (including twist and yarn) increased from 91,900 tons in September 1939 to 128,100 tons in January 1940. It was, however, announced in January 1940 that the sandbag deliveries will be delayed, instead of 109 million bags per month only 54½ million bags will be taken, and deliveries would thus be prolonged upto August 1940 instead of being completed by April as was previously expected. This damped the ardour of the manufacturers and, though the price of manufactured goods showed some revival from September 1940 depending on export conditions, the industry remained depressed upto March 1941. The revival after this was slow and productive activity got intensified only from October 1941. This revival was due to many factors. Fresh government orders were received in January and March 1941. The efforts of the Bengal Government to control the prices and cultivation of jute were having some effect, and the Agreement of July 1940 proved helpful. The demand from the U. S. A. and other markets showed signs of improvement. The increased activity could not, however, be sustained for long and the break came in the middle of February 1942, though it should have come earlier but for government orders and the stability which had been secured because of restricted output. The industry has remained depressed from the middle of February 1942 upto date (March 1943), because due to Japan entering the war the

manufacturing areas in Bengal have been in danger of attack, the Bay of Bengal has been unsafe, shipping charges have increased and the conditions of payment made more strict.

Early in 1942 the Government of India, on the recommendations of the American Technical Mission, proposed to rationalise the jute industry by closing 'certain particular types' of mills with a view to save coal and economise in the use of wagons. But later on the idea was given up as the Indian Jute Mills Association has agreed to put a scheme into force which will achieve the object of the government without being unfair to the industry. Details of this scheme are not yet available but it is bound to pave the way for future reorganisation.

Iron and Steel Industry. This industry in India, as elsewhere, is of fundamental importance for the war effort. It is, therefore, natural that the total output of this industry, barring a small quantity for civilian use, is devoted to war work. The Government of India has instituted a strict statutory control on the distribution of iron and steel in the country from August 1941. The production figures for the last two years are not available, their publication having been discontinued since August 1940.

PRODUCTION IN INDIA

(In thousand tons)

	1936-37	1937-38	1938-39	1939-40
Pig Iron	1,552	1,644	1,576	1,838
Finished Steel	692	873	935	1,066

The industry has enjoyed uninterrupted boom conditions for over six years as the armament activity which preceded the war came in continuation of the 1937-38 industrial boom in our country. The production of both pig iron and steel has set new records in recent years. It was announced in January 1942 that the total output of steel industry is shortly expected to increase by one-third. A better idea of the increased activity is, however, obtained by the figures of profits made by companies which occupy a predominant position in the industry.

PROFITS AND DIVIDENDS¹

(Year ending 31st March)

	1937	1938	1939	1940	1941
The Tata Iron and Steel Co. Limited.					
Profits (Lakhs Rs.) ..	257	330	365	357	463
Dividend % per annum	13½	20½	24	33½	38½
The Indian Iron and Steel Co. Ltd.					
Profits (Lakhs Rs.) ..	50	119	51	63	73
Dividend % per annum	20	35	15	20	22½

The profits of the Tata Iron and Steel Company in 1941 amounted to Rs. 4,63,00,000 marking an

¹ Compiled from the Investors' Encyclopaedia, 1942.

increase of 30 per cent over 1940 and 27 per cent over 1939. The profits of the Indian Iron and Steel Company, though they somewhat declined in 1939 due to a prolonged labour trouble and higher railway freights, have also substantially increased. The Steel Corporation of Bengal, which had been running to a loss since its inception in 1937, made a net profit of over Rs. 7 lakhs in 1940. The Mysore State Iron and Steel works made a profit of Rs. 33 lakhs in 1940-41, which marks an increase over the 1939-40 figure. These facts clearly reveal an unprecedented war prosperity.

Of greater interest, however, are certain new developments which have been due exclusively to the war and which are bound to strengthen the industry in the post-war period. Before the war started, the Indian industry supplied several lakh tons of plain carbon steel, structural plates, galvanised sheets, rails, tinplates, and bars. In addition, a limited quantity of special ordnance steel was produced in the Government Metal and Steel Factory. The war has brought about significant new developments. Tatas have evolved a method of producing acid steel which is vital to the manufacture of wheels, tyres, and axles. By the later part of 1940 the Tatas produced special alloy armour plates conforming to British specification. Steel suitable for the latest types of guns and barrels, ammunition and bombs has been produced. It has been possible to produce various kinds of alloy steels suitable for the manufacture of steel helmets, armour piercing bullets and shots;

a chrome-molybdenum alloy steel required in the manufacture of aircrafts; spring steels for the manufacture of machine guns; special deep drawing steels for rifles and machinegun magazines; nickel steel plates for gun carriage mountings; high carbon steels for manufacture of high explosive shells and mint dies; a high speed steel for machine tools; and a stainless steel for surgical instruments. One of India's Ordnance factories, as a result of Chatfield and Roger Mission recommendations, has just completed a plant for the production of alloy steels not previously manufactured in India. This alloy steel will be utilised for the outturn of field-guns, anti-aircraft gun liners, anti-tank guns, rifles and machine guns. The manufacturing of baling hoops, which were formerly imported, has also been undertaken in our country. In November 1941 the Tatas have started, after some difficulty, the production of tyres, axles and wheels. The plant has been designed with a productive capacity just adequate to meet the entire requirements of Indian railways. This enterprise paves the way for a large scale locomotive industry. The Indian iron and steel industry had already become the most powerful enterprise in Asia and, after passing through the war, it might as well become one of the leading industries of the world.

Coal Industry. The output of the Indian coal industry has been rising for some time past.

COAL STATISTICS FOR BRITISH INDIA (EXCLUDING BURMA¹)

(In thousand tons)

	Production	Exports	Imports
1937-38	23,479	1,029	84
1938-39	24,815	1,341	44
1939-40	25,056	2,009	18
1940-41	(a)	1,941	5
1941-42	(a)	1,557	12
1942-43	(a)	289	4

(a) not available. Figures for 1942-43 are provisional.

The above figures of production are not complete. The average annual production of coal in India over the decade ending 1936 was 22 million tons, output rising steeply in 1937 to 25 million tons, in 1938 and 1939 to 28 million tons, and to 29 million tons in 1940.² No figures are available for 1941 and 1942 but production has by no chance fallen off. The exports of coal after reaching the record level of 2 million tons in the previous two years declined to 1½ million tons in 1941-42. The imports declined by nearly 80 per cent as compared to the pre-war year. In 1942-43, the exports declined still further and amounted to little more than a quarter million tons. The coal industry has not enjoyed much prosperity on account of the

¹ Monthly Survey of Business Conditions in India.

² cf. Review of the Trade of India, 1940-41, p. 53.

war. This is due to many factors. The internal demand for coal has increased because of war activity in coal-consuming industries but this has not been of much benefit to coal producers as the coal prices have remained very low while the costs of production have increased on account of rising prices of colliery stores and equipment, increase in wages, fresh levies made on the coal industry. The profit margin has remained low. The index of coal prices (Jharia Grade No. 1 and Desherghur) in Calcutta presents a sorry picture.

PRICE INDEX, (Base July 1914=100)			
May 1939 to June 1941 ¹	..	..	67
July to October 1941 ..	..	..	72
November and December 1941	..	..	79
January to April 1942 ..	..	..	82
May to June 1942 ..	..	..	84
July 1942 ..	..	..	87.5
August to October 1942	...	...	88.5
November 1942	...	...	102.0
December 1942 to February 1943	...	...	109.5

A study of the index clearly shows that the prices of coal have recorded an irregular rise, a small rise was experienced only after the middle of 1941, which became more marked in November after which prices remained more or less steady

¹ There was only a small and temporary rise in the first four months of the war.

upto the end of April 1942. There was some increase in the summer months of 1942 and this was further accentuated after the middle of the year. It was only in November 1942 that prices recorded a substantial increase and this position has continued up-to-date (March 1943). The general condition in the industry, however, has remained unsatisfactory. There is a cut-throat competition between the producers of coal and the supply exceeds demand. Exports do not count for much. Imports are nominal and even a fall of 80 per cent makes no difference. There is always a shortage of wagons and the mines have to put up with much stocks. The mines, because of concentration in particular areas, cannot exploit the markets satisfactorily.

A study of dividends issued by coal companies also shows a state of depression. Out of 55 companies¹, 12 declared no dividends between 1938 and 1941. The average dividend which amounted to 12.21 per cent per annum in 1938 declined to 10.66 per cent per annum in 1941. The dividends declared during these years are not encouraging.

The industry is not likely to make much progress even in the future unless it rationalises itself. There are far too many small collieries, some of which always indulge in cut-throat competition. A very large number of collieries consist of frag-

¹ loc. cit.

mentary holdings, let us say 70 to 150 bighas, each producing a comparatively small quantity of the order of 10,000 tons of coal per annum.¹ These small collieries, owing to lack of funds, are forced to use uneconomic methods of mining. They also cut prices to attract customers. The amalgamation of these small collieries and the formation of a central sales organisation are bound to prevent much waste, stabilise prices, and bring prosperity to the industry.

Cement Industry. There are in India about 20 cement factories with a total capacity of 2.8 million tons and the actual sales amount to about 80 per cent of this capacity. No figures are available about the production and exports of cement and this adds greatly to the difficulty of gauging the progress of this industry. The imports are only nominal and amounted to a bare 5,000 tons in 1940-41 as compared to 21,000 tons in 1938-39. India is now self-sufficient in the supply of cement.

¹ cf. Remarks made by Mr. J. B. Ross in his Presidential address at the annual meeting of the Mining, Geological and Metallurgical Institute of India. Indian Finance, Jan. 20, 1940, p. 123.

CAPITAL VARIABLE—YIELD SECURITIES INDEX FOR CEMENT SHARES

Base : Prices in August, 1939=100

	1939	1940	1941	1942	1943
January .. ..	..	104.7	99.4	139.7	172.2
February .. ..	..	104.2	99.9	135.6	168.6
March .. ..	..	104.6	100.8	135.1	182.3
April .. ..	..	102.3	98.4	138.1	191.0
May .. ..	..	103.8	99.0	139.0	190.2
June .. ..	..	(a)	101.5	145.1	..
July .. ..	..	95.8	103.0	152.3	..
August	100	97.0	111.8	152.3	..
September	103.7	98.4	139.6	154.4	..
October	105.7	97.7	140.3	156.3	..
November	109.5	98.1	165.6	171.5	..
December	109.1	101.9	138.9	165.6	..

(a) Omitted.

The index of cement prices and the above table showing changes in the share values reveal that the industry made good progress only after August 1941. The price index (Base August 1939=100) from September 1939 to July 1941 varied between 105 and 112 except for a few months in the middle of 1940 when it remained at 117. Similarly the index of share values over the same period remained between 103 and 109.5. Ever since August 1941 both these indices with some variations, have been on a rise.

The industry was depressed in the early period of the war for three reasons. The price-war which

started in the industry in the middle of 1938 between the Associated Cement Company and Dalmia Group continued right upto December 1940 when after all an agreement was reached. This price war resulted in low prices and much waste of money in a frantic effort to capture the markets at any cost. Secondly, the world war though it did not lead to much rise in the price of cement caused a rise in the price of stores and transport thus increasing the costs of production. Finally, the demand for cement in the internal market got reduced because the rising price of building materials discouraged private construction in Bombay and elsewhere, and some time elapsed before this gap could be filled by construction activity on behalf of the Government. The building boom, which had so well sustained the cement industry, was at an end. The first two years of war, therefore, had a depressing effect on the Indian cement industry.

The conditions changed from the middle of 1941. The sales agreement between the two rival groups helped to stabilise conditions. The war having come to the frontiers of India the Government had to spend large amounts of money on building roads, barracks, aerodromes, and A. R. P. shelters. This stimulated demand for cement and the gap caused by the stoppage of private building activity was more than filled by government demand. Finally, the exports of cement increased because many countries found their former suppliers busy producing armaments and naturally turned to India for supplies. The Indian industry

exported much larger quantities of cement, though no figures are available, to Iraq, Iran, Afghanistan, Ceylon, Dutch East Indies, and Malaya among other countries.

The one great danger to which attention has to be paid in the future is that of excess capacity and overproduction. In 1936 there already existed productive capacity exceeding the market demand. Out of an estimated consumption of $9\frac{1}{4}$ lakh tons Indian factories supplied a little more than $8\frac{3}{4}$ lakh tons and some productive capacity was left unused. Demand has since increased but productive capacity has increased much faster. The Associated Cement Company has added much to its capacity—the factory at Khalari (Bihar), which came into operation from April 1937 has a capacity of 100,000 tons. The extensions of work at Coimbatore, Bundi, and in the Punjab have added a further 200,000 tons to the company's output. The three new factories, one each at Rohri (Sind), Bhupendra (Patiala State), and Bezwada (Madras Presidency), which began functioning from 1939-40 have a combined capacity of over 250,000 tons per annum. The Dalmia Group has erected, 1938 onwards, a productive capacity exceeding 600,000 tons per year. The Andhra Cement Company with a capacity of 40,000 tons per annum began work from 1939 and the Assam Bengal Cement Company with a capacity of 100,000 tons per year commenced work in the autumn of 1941. In this way, productive capacity has increased by 150 per cent within five years. If the industry is to continue to be pros-

perous we have to rationalise it with a view to dispense with excess capacity which, at the present time, may be anything from 20 to 30 per cent of the existing equipment.

Paper Industry. The war has come as a great boon to the Indian paper industry and the increased demand for paper in the country, the fall in imports, and an increased demand from abroad are indirect results of the war. The industry was beginning to languish in 1939 as a result of internal cut-throat competition and the low prices at which Norway, Sweden and other countries could sell their product in India. Both these difficulties have now disappeared due to the war. The imports from abroad have declined and the Indian producers do not feel the necessity of undercutting each other's price because, on account of the gap created by the fall in imports, they are fully booked with orders. The imports of paper, pasteboard and stationery declined to Rs. 407 lakhs in 1941-42 and Rs. 216 lakhs in 1942-43 as compared to Rs. 451 lakhs in 1940-41 and Rs. 411 lakhs in 1939-40. The imports of paper making materials declined from Rs. 24 lakhs in 1939-40 to Rs. 13 lakhs in 1940-41, Rs. 11 lakhs in 1941-42, and Rs. 3 lakhs in 1942-43. The Government of India relaxed, as from January 1941, the control on the exports of paper and pasteboard. The exports of paper, pasteboard and stationery, though they do not amount to much, have increased from Rs. 13 lakhs in 1938-39 and Rs. 18 lakhs in 1939-40 to Rs. 41 lakhs in 1940-41 and Rs. 40 lakhs in

1941-42. The exports, however, due to increased difficulties of sea transport and an actual shortage of paper in the country declined to Rs, 5½ lakhs in 1942-43.

	1938-39	1939-40	1940-41	1941-42	1942-43
Number of factories in operation ..	11	13	15	17	17
Quantity produced in thousand cwts. ..	1,184	1,416	1,753	1,871	1,326

Figures for 1942-43 are provisional.

During the last four years, the number of factories in actual operation and the total output have both recorded an increase. The production¹ in 1941-42 was little below the 2 million cwts. level and this marks an increase of 58 per cent over

¹ The Govt. of India passed an order in 1942 freezing 90% of mill production for government use and leaving 10% for the use of the public. This has given rise to much public criticism. The Government, however, revised their order towards the middle of 1943 and allowed 30% of mill production for public use reserving only 70% for their own use. Some sections of public opinion consider even this distribution as unfair.

1938-39. The production in 1942-43, in spite of best efforts to increase it by 15 per cent over past year's output by standardisation of qualities and high pressure working, is expected to decline to $1\frac{1}{3}$ million cwts. This is due partly to a shortage of raw materials and chemicals and partly to difficulties of transport. Indian mills mostly manufacture paper from chemical pulp. Some have recently set up plant for making pulp from bamboo and sabai grass. Large quantities of fine writing and printing paper and some special types are also being manufactured. The Indian industry, however, is still very deficient in the production of mechanical pulp. We have to depend on imports for this material and the efforts of some Indian mills to produce it economically have not yet met with much success. We also depended on imports for brown and packing paper and the gap has to some extent been filled by two factories which are producing substantial quantities of 'kraft' paper. This is an entirely new development. There is, however, still much scope for the production of mechanical pulp, brown and packing paper, and some special qualities.

Due to the war, the price of imported chemicals and stores, the wages of labour, and the transport costs have increased but the industry has not suffered on this account because the prices of paper have also increased. A study of dividends shows the prosperity of paper companies. Out of 9 companies only 5 declared dividends in 1938 and 1939, 7 in 1940, but all the 9 declared dividends in 1941. The average dividend for 1941 amounts to 13.2 per cent

and though it is lower than the past years dividend this only indicates a cautious policy on the part of some paper mills.¹ The industry has enjoyed unqualified prosperity for the last four years.

Tea Industry. The Indian tea industry depends for its prosperity on exports which constitute more than 80 per cent of the total output. As a result of an international agreement (since 1933), controlling the production and exports of tea in the principal countries, the Indian industry has been making an orderly progress. The war has further assisted the industry in achieving a greater stability.

PRODUCTION OF TEA

(*Million lbs.*)

	1938	1939	1940	1941	1942
In North India only ²	371	385	391	415	(b)
In the whole country	452	453	463	470(a)	555(a)

(a) estimated. (b) not yet available.

The production of tea in 1941, in North India, increased to 415.36 million lbs. which marks an increase of 7.9 per cent over 1939 and 6.2 per cent over 1940. The industry was thoroughly regulated

¹ Loc. cit.

² Corresponding figures for Southern India are not available.

before the war and this increase in production, though modest, indicates a good progress.

FOREIGN DEMAND

(In Million lbs.)

	1938-39	1939-40	1940-41	1941-42	1942-43
Total exports	348	359	349	382	(b)
E x p o r t s					
(1) Quota for India ¹ ..	92½%	95%	92½%	110%	125%
(2) Quantity	354.5	364	354.5	421	478
Quantity supplied to U. K. Ministry of Food under contract ..	..	..	323	279	421½

The U. K. takes by far the greatest share of India's exports of tea: this share amounted to 90 per cent of total exports in 1940-41 having increased from 87 per cent in 1938-39. The policy of the British Ministry of Food has helped to stabilise conditions in the Indian industry. Two days after the declaration of war the British Ministry of Food assumed full control on the supply of tea and for the remaining months of 1939 it entered into short-

¹ Allotted by the International Tea Restriction Committee as a percentage of Standard Exports.

(b) not yet available.

term arrangements acquiring 85 per cent of the export quota at the credit of individual estates. In the last two years it entered into long period contracts with tea interests and India's share of it amounted to 323 million lbs. in 1940 and 279 million lbs. in 1941. It has been announced that the British Minister of Food will purchase the entire exportable surplus of the 1942 crop.¹ The quantity covered by the contract is allocated between the tea estates by the Indian Tea Licensing Committee under the presidentship of the Tea Controller of India, who was appointed after the commencement of hostilities. This bulk demand has had a very stabilising effect on Indian industry. Along with this, the policy of the International Tea Restriction Committee in adjusting the export quota from time to time on the basis of prevailing market conditions has proved very helpful. The war has in no way dislocated the tea industry and has brought it further prosperity. The European Continental markets—which took only about one per cent of total exports before the war—are not available but their place has been more than taken by other markets. The offtake of U. S. A., for example, increased to 13 1/3 million lbs. in 1939-40 as compared to 8 million lbs. in the previous year. The consumption of tea

¹ The exportable quota for 1942-43, including last year's carry over amounts to about 489 million lbs. but the Govt. of India has decided to permit an export of only 421½ million lbs., the exportable surplus after maintaining about 134 million lbs. for internal consumption.

in our own country also increased to 106 million lbs. in 1940-41 as compared to 82 million lbs. in the previous year. It is expected to amount to 134 million lbs. in 1942-43.

The average price of tea and the share values of tea companies, though they have had alternative periods of up and down movement, also show a similar condition of prosperity. The index of tea prices (Base: July 1914=100) increased from 140 in August 1939 to 164 in November 1939. This rise continued to the middle of January 1940. The *Capital Variable—Yield Securities Index* for Tea Shares (Base: Prices in August 1939=100) increased to 121.4 in January 1940. Then there was a fall in tea prices and share values upto August 1940. It was only in September that the price index came to 164. The index for tea shares also declined by gradual steps till it reached 103.7 in August 1940. Prices increased between August 1940 and January 1941. The price index increased from 181 in October 1940 to 197 in January 1941, except for a temporary decline in November. The *Capital* index for tea shares also gained 7 points reaching 110.6 in January 1941. Prices remained somewhat depressed from February to May 1941, though they recorded a gradual rise even during this period. Since that date prices have been uniformly maintained. The index for tea prices, except for a temporary fall in December 1941, remained well over 200. The index for tea shares has also remained 25 to 60 per cent higher than the pre-war level. The

figures of company dividends¹ also reveal a condition of prosperity. Out of 128 companies, 8 gave no dividends at all between 1938 and 1941. The average dividend per cent per annum recorded a continuous increase being 13.56 per cent in 1938, 14.6 per cent in 1939, 15.57 per cent in 1940, and 18.79 per cent in 1941. Tea has been in the same boat with iron and steel and paper industries and has enjoyed a continuous prosperity during the first four years of war.

Sugar Industry. The first three years of war, however, have not at all stimulated the sugar industry. The internal demand of sugar has not increased because with an all-round rise in prices people's capacity to purchase sugar has been considerably reduced. Sugar has also derived no benefit from a fall in imports. For one thing, imports had already declined to a bare 14,000 tons in 1937-38 as compared to 10,00,000 tons in 1930-31. The Indian industry was supplying almost the entire demand and there was not much possibility of gain even if imports completely 'disappeared'. Moreover there has as yet been no increase in the exports of sugar because the International Sugar Agreement of 1937 to which India was a 'party' did not permit them. On the contrary, India has been included in the *Free Market* to the extent of 50,000 tons. No exports were thus possible. An effort to sell 200,000 tons of sugar to the British Ministry of Food in the summer of 1940 failed because very low prices were

¹ loc. cit.

offered. So far, therefore, the sugar industry unlike all other Indian industries has derived no benefit out of the war. On the contrary it has suffered by a rise in the price of chemicals, higher wages, and increased transport charges. The International Agreement has expired in August 1942 and, may be, in the future India will be able to export some sugar to the Allies. The future may hold brighter prospects for the Indian sugar industry.

PRODUCTION OF SUGAR

(Lakh Tons)

	1938-39	1939-40	1940-41	1941-42	1942-43
Total number of factories in existence ..	154	159	163	161	161(a)
Number of factories in actual operation ..	132	145	148	150	151(a)
Sugar produced by cane factories ..	6.5	12.42	10.95	7.78	10.61(a)
Total sugar produced ..	7.8	13.70	13.40	(b)	(b)
Average percentage of recovery for U. P. and Bihar ..	9.14%	9.37%	9.87%	9.70%	9.75%(a)

(a) provisional. (b) not yet available.

In 1941-42, 150 cane factories produced nearly 8 lakh tons of sugar marking a decrease of 27.5 per cent from last year and a decrease of 35.7 per cent as compared to 1939-40. In 1942-43, production increased to 10.6 lakh tons, which though more than that of the previous year does not exceed that of 1940-41. Moreover, the sugar industry has experienced much internal trouble in the last three years.

In 1939 and 1940, the difficulties of the sugar industry were due mostly to the unrealistic policy of the Indian Sugar Syndicate in fixing high basic price for sugar and an equally unrealistic policy of the U. P. and Bihar governments in fixing high prices for cane on the basis of a sliding scale.¹ A vicious circle was formed. Prices of sugar remained high, consumption was discouraged, stocks accumulated with the factories. The profit margin was reduced and there was depression in the industry. The two governments decided to fix prices of sugar-cane on the basis of a sliding scale for the 1939-40 season. Prices were fixed on a sliding

¹ Under the Sugarcane Act, of 1934, the Governments of U. P. and Bihar fixed the minimum price of sugarcane on the basis of a sliding scale. This continued upto 1937 in which year the sliding scale was given up and a single irreducible minimum price was fixed. The sliding scale was restored in the 1939-40 season. A change was again made and a single price of sugarcane was fixed for the whole of 1940-41, and again for the 1941-42 and 1942-43 seasons, to which has been added a bonus scheme. cf. Author's leading article in the *Capital*, dated April 23, 1942.

scale in November 1939 and once in the season as high a price as 10 annas 9 pies per maund of sugarcane was paid on the basis of a price of Rs. 12/8 per maund of sugar. This high price of cane encouraged excessive cultivation and a subsequent overproduction of sugar. The Sugar Syndicate protested to the governments and, in its ignorance of elementary laws of economics, it also increased the basic price of sugar for the 1939-40 season to Rs. 12 per maund. This amounted to an increase of 20 per cent as the basic price in the previous season was Rs. 10 per maund. Higher prices discouraged consumption. Supply had already increased but demand declined leading to a serious overproduction. Depression and chaos inevitably followed. The Syndicate realised its mistake and reduced its basic price (Nawabganj Sugar D-24) to Rs. 8/10 per maund for sugar produced on or after 11th April 1940, but it was too late and in June 1940 the U. P. and Bihar governments withdrew recognition from the Syndicate. Chaos intensified. Weak sellers freely under-cut prices in order to dispose of their stocks. Great uncertainty was created in the market for more than two months—June to August 1940—when after much discussion the two governments recognised the syndicate in a revised form and appointed a Sugar Commission to control prices and production. The sugar prices from September 1940 to March 1941 remained fairly steady. The excessive government control, however, was much resented by sugar interests and the industry remained depressed throughout 1940.

In 1941 and 1942 the house of sugar industry was again out of order. This time the chief cause of difficulty was an excessive government control in two provinces—U. P. and Bihar—and an absence of control elsewhere. The efforts of the U. P. and Bihar governments to control production failed and, what is worst, the overproduction has become more acute by factories outside these two provinces increasing their output. The U. P. and Bihar governments, with a view to restrict production in 1940-41 season, fixed the production quota at 7.2 lakh tons. Licences were issued to the different factories on this basis, but the actual production exceeded the fixed quota by nearly 40,000 tons, because due to a shorter crushing season the average percentage of sugar recovery increased to 9.87 while the licences were issued on the basis of 9.5 per cent recovery. The control for 1941-42 was consequently tightened and the quota was fixed at 5.78 lakh tons, but as the season advanced it became clear that due to low cane prices and a general failure of crop the production might fall much below the fixed quota. In order to forestall this difficulty the two governments withdrew control and abandoned all quota restrictions for the rest of the 1941-42 season, but even then the production was below expectation and amounted only to 5 lakh tons. In consequence the production has been left uncontrolled in the 1942-43 season.

(Figures in Tons)

Sugar produced in	..	1939-40	1940-41	1941-42
U. P. and Bihar	..	9,81,600	7,59,400	5,00,000
Rest of India	..	2,60,100	3,36,000	2,78,000
		<hr/>	<hr/>	<hr/>
TOTAL	..	12,41,700	10,95,400	7,78,000

Figures for 1941-42 are provisional.

The excessive control in the U. P. and Bihar has encouraged the flight of the sugar industry to the Indian states and other British Indian provinces, and out of 4 new factories started in 1940-41, three were started outside this area: one was started in Kapurthala state, another in Madras, and a third in the N. W. F. Province. As the above table shows, the production of sugar (cane factories only) in other parts of India increased from 2.6 lakh tons in 1939-40 to 3.36 lakh tons in 1940-41, while the production in U. P. and Bihar declined. In 1941-42, the production everywhere declined but the decline was greater in the U. P. and Bihar, being nearly 34 per cent as compared to the previous season, while in the rest of the country it declined only by 17 per cent.

An abortive effort was made to control the industry on an all-India basis and the first meeting of the Central Sugar Advisory Board was held in New Delhi in the month of January 1942. It discussed, among other topics, the question of new sugar factories taking birth but consideration of the problem was postponed to the next meeting. The sugar Controller of the Government of India

fixed the price of sugar (Marhowrah Crystal No. 1 C-28) in April 1942 at Rs. 11/12 per maund but subsequently raised it to Rs. 12/3/6. The price of cane was fixed by the provincial governments at annas -/8/- per maund for the 1942-43 season but towards the close of 1942, due to a rise in the price of gur, the cultivator preferred to convert his cane into gur rather than sell it to the factories. In consequence some factories in U. P. and Bihar experienced an acute shortage of cane. It, therefore, became necessary to raise the ex-factory price of C-28 sugar to Rs. 14/- per maund as from January 1, 1943, so that a price of annas -/10/- per maund may be paid for cane. This, however, did not have the desired effect and some factories have continued to experience a shortage of cane. Moreover, the centralised control, whatever it is worth, has not yet become effective.

These unsettled conditions have been reflected in low dividends. Out of 39 sugar companies, 7 declared no dividends at all between 1938 and 1941. The average percentage of dividend per annum was 8.9 per cent in 1938, 10.16 per cent in 1939, 10.08 per cent in 1940, and 11.58 per cent in 1941. In the earlier years the dividends were small partly because the crop in 1937-38 and again in 1938-39 was poor on account of floods, adverse weather conditions, and disease. In 1940 the dividends were low, and this to some extent also affected the 1939 dividend, because of internal disorganisation in the industry. There was some improvement in 1941 due to a certain amount of stability

brought about as a result of government control. But in the first three years of war, as has already been emphasised, the sugar industry has not benefited from the war. The prospects for the future, however, are brighter. The industry may benefit by exports which may now become possible.

CHAPTER II

JOINT STOCK ENTERPRISE (*Contd.*)

4. New Enterprise

Efforts have been made in the last three years to fill in many gaps in India's industrial structure. Some articles, for which we depended upon imports before the war, are now being manufactured in India. Some industries, like shipbuilding, which already existed in an embryo form are being reorganised and made productive. A much fuller use is being made of small scale and cottage industries,¹ and a systematic coordination between the small and the large scale may soon be achieved. This increased activity has largely been due to the efforts of the Supply Department² of the Government of India and its agents. The progress achieved incidentally supports our contention that in the past the laissez faire policy of the Government of India has partly been responsible for the industrial backwardness of our country. It cannot be denied that Indian industry would

¹ See the next chapter.

² See "India Arms for Victory" by G. W. Tyson (Kishinipur, Allahabad, 1943) for an excellent survey of this aspect.

have reacted almost in the same fashion to government effort even if there was no war. It is a pity that a major world war should have been necessary to arouse the government from their slumber. A greater pity, however, is that even today a narrow point of view is taken. The Supply Department only interests itself in those commodities which are of direct military use and which cannot be obtained from other countries. No effort is made to develop those industries, like automobile manufacturing, which will add to industrial strength in the future although there may be some immediate disadvantage. This short-sighted policy has resulted in leaving many gaps unfilled. We are bound to share the inferences of Messrs Premchand Roychand and Sons¹ who quoting a remark from the Railway Gazette of London about the views of Mr. Locock, a member of the Eastern Group Council, suggest that after all there may be a method in government's neglecting certain opportunities, the development of which will strike too heavy a blow on post-war British industry. The government has to give up this reactionary attitude. It is essential to draw up a thorough-going plan of industrial development. It is high time that we

¹ Annual Market Review, 1941, p. 37.

The Railway Gazette writes: "Mr. Locock holds the view that no steps have been taken to expand production as a result of the Mission's visit which are not essential for war purposes, and that on the whole post-war interests of British industry are not likely to suffer so greatly as was at one time expected."

pay attention to remove the existing deficiencies in our industrial structure.

Aluminium Manufacturing. Upto 1940, we did not have a single aluminium smelting or sheet rolling mill. We depended for aluminium on imports which amounted to 58,000 cwts. in 1938-39 valued at Rs. 46 $1\frac{1}{3}$ lakhs. The Indian workshops only pressed hollow-ware from imported metal. This absence of aluminium smelting is remarkable when we remember that in our country there exist rich deposits of bauxite in C. P., Bihar, Bombay, and some Indian states. The production of bauxite in the last two years amounted to nearly 15,000 tons chiefly from Katni in C. P. and Kaira district in Bombay. Large deposits are known to exist in Bilaspur and Mandla districts and Sirguja and Jashpur States (C. P.), Kolhapur State (Bombay), Ranchi district (Bihar), and Jammu (Kashmir) and there undoubtedly exist some still undiscovered deposits as bauxite is an ordinary looking clay like rock.

The Aluminium Corporation of India Limited, the first company of its type, was formed in 1937 and proposed to manufacture 3,000 tons of finished aluminium sheets and circles per year from bauxite in a factory at Anupnagar near Asansol. This was a promising proposition but unfortunately some parts of the machinery—especially turbines—were en route when the war broke out and the consignments were held up. Efforts were subsequently made to obtain machinery from America but without much success. The works

started functioning only as late as 1943. A second (private) company—The Aluminium Production Company of India Limited—was formed by English and Canadian interests. It proposed the erection of an aluminium smelter in Travancore State with a capacity of 5,000 tons per year and a sheet rolling mill at Belur near Calcutta. The machinery was ordered from Canada and the U. S. A. The rolling mill commenced operations in August 1941, but due to the exigencies of war the plans in Travancore State were delayed. The aluminium smelter, however, came into operation early in 1943.

The production of aluminium in India will be of great advantage. Aluminium can replace copper and other metals for making utensils and thus reduce our dependence on imported metal. During the war period, a greater use of aluminium will spare other metals for war work. Moreover, aluminium is likely to play a much greater part in structural fittings in the future because it is light and durable. Finally, being a light metal it is used in the construction of aircraft and, as our aircraft manufacturing develops, the demand for aluminium will also increase. With this prospective demand, huge deposits of bauxite and cheap electric energy there is a clear case for more aluminium factories to be set up as soon as the necessary machinery is available.

The Aircraft Factory. In India there is at present one factory—The Hindustan Aircraft Factory—turning out aeroplanes and doing repair work. It

is learnt that the Tatas are also contemplating to sponsor a company to undertake manufacturing aeroplanes. The Hindustan Aircraft Factory has been set up at Bangalore by a company formed in 1940. In the beginning the capital was contributed by the Govt. of India, the Mysore Durbar, Walchand Hirachand and his friends. But as time passed the Government of India purchased more shares and early in 1942 Walchand Hirachand and others have sold their entire investment to the Government of India. The Mysore Durbar, while retaining the financial interest, has agreed to waive the right to share in its active management for the period of the war and sometime afterwards. The factory has, therefore, now become purely a government affair.

Much difficulty was experienced, before setting up the factory, about the imports of machinery and technical skill. The American and Chinese Governments gave liberal help and the plant was set going. Special steels were required but were not available. Tatas, as usual, came to the rescue. The actual manufacturing of all the parts is not yet possible and the factory does assembling work from imported parts.

The first aircraft to be assembled in India, a 'Harlow' Trainer, was completed by the Company in July 1941 and successfully performed its trial flights. A further type of aircraft which has been produced is the 'Curtiss Hawk,' a modern high performance fighter. Both these planes are of American design. It is expected that soon this factory

will be able to turn out from 15 to 30 aeroplanes a month.¹

Shipbuilding. We had some sort of a 'shipbuilding' industry in India even before the war started. There existed half a dozen repairing and refitting yards at Calcutta, Bombay, and Karachi. These yards, in addition to repairing and refitting work, could also produce small craft, tugs, barges, and other vessels, upto 600 tons and in some cases even upto 1,500 tons replacement.² It has been estimated that with some renovations these yards could probably produce sea-going vessels of a slightly higher replacement. It is, however, undeniable that these facilities are entirely insufficient to build enough ships for a country with a 4000-mile long coast line.

It was proposed by the Eastern Group Conference to utilise the existing capacity of India's repairing and refitting yards and in consequence orders were placed with them towards the end of 1940 for some small naval vessels. The largest type of vessel that can at present be constructed in India is the Bangor class corvette and minesweeper. These yards are building mine-sweeping trawlers displacing about 430 tons, motor mine-sweepers, fast anti-submarine motor boats, motor launches, life boats, tugs, and other craft. The first of the Basset trawlers to be built in India was launched in

¹ Capital, November 27, 1941, p. 793.

² See Author's contribution to the Modern Review, August 1941, pp. 148-50.

August 1941. The Admiralty has placed orders with these yards for the construction of several floating docks. These repairing and refitting yards are fully booked with orders. They are effectively assisting the war effort though the work is hampered by our dependence on imports for such things as boilers and propelling machinery which are not yet manufactured in India.

The government attitude towards the ship-building yard started by the Scindia Steam Navigation Company at Vizagapatam in June 1941 has, however, not been so encouraging. The Government of India have not granted the necessary facilities to this company, although the construction of merchantmen and other big vessels is of vital importance for a successful prosecution of the war. Mr. Walchand Hirachand in his speech on the opening ceremony of the yard pointed out that the project, when complete, will turn out, 16 vessels of 6,000 to 10,000 tons replacement, annually. Eight slipways and two berths will be constructed for this purpose. The shipyard will also include workshops for preparing steel for construction of hulls and for internal fittings. In the beginning we will have to depend on imports for boilers, propelling machinery and copper fittings but ultimately we should be able to manufacture them ourselves. The first vessel is expected to be ready by the middle of 1943. This delay would have been prevented if the necessary facilities were granted to this vital key industry.

It is well worth realising that in addition to filling an awkward gap this new industry will give employment to nearly 10,000 men. It will encourage such industries as paint works, electric and cable manufacturing, rope making, electric appliances, iron and steel works and metal works by creating fresh demand for their output. Moreover, we need not depend on foreign demand for the output of our shipbuilding industry at least in the beginning. At present there are 150 to 225 vessels, and soon this number will increase, operating on the coast and in the river traffic of India. If we take the life of each vessel at 30 years, the demand for such vessels from Indian Shipping companies will be at least six per annum.¹ Moreover, it is estimated that on an average at least one coastal boat is built for India in foreign yards. This we could supply ourselves. The Vizagapatam shipyard has a bright future and deserves every encouragement and help.

Munitions and Armaments. Prior to the outbreak of war there existed in India several ordnance factories for the production of munitions. These included a metal and steel factory, a gun and shell factory, and other factories for the manufacture of rifles, gun carriages, cordite, and ammunition. Due to the war, exact and full information is not available about the new developments in this industry.² It

¹ cf. Indian Finance, July 6, 1940, pp. 5-6.

² The only source of information available to us is the occasional statements made by government agencies. In

is, however, evident that the productive capacity has greatly increased and a systematic use is being made of spare capacity in railway workshops, jute and sugar factories, and government mints for the manufacture of munitions and armaments.

“When war broke out India was engaged on a plan recommended by the Chatfield Committee for the expansion and modernisation of the existing ordnance factories and the establishment of additional factories for the manufacture of high explosives. The plan, estimated to cost about Rs. 4 crores, involved an expansion of the factories by about 20 per cent. A provision was made for new plant and machinery which would enable these factories to manufacture certain of the most modern types of arms and ammunitions. The plan was to reach full production by the end of 1941, except for certain items which were expected to come into operation during 1942. In the autumn of 1940 the Ministry of Supply Mission (The Roger Mission) visited India and as a result of the Mission's recommendations over 20 new munition projects are now in hand. The total cost of these projects is over Rs. 11½ crores. In addition to important expansions of existing factories these projects include the reconditioning of an old factory for the manufacture of anti-gas respirators, machine gun tripods, bombs and the establishment of several new facto-

this section, therefore, we have reproduced almost verbatim certain passages from *Indian Information*. See especially issues dated January 1, February 1, March 1, 1942.

ries for guns, shells, mortar, bombs, fuzes, cartridge cases, small arms ammunition, filling and scientific instruments, parachute dropping containers, finished cavity forgings for heavy type of howitzer and anti-aircraft shell, grenades, 20-pounder and 18-pounder shots, and bayonets. Among other developments, a 2000-ton gun forging press has been imported and India now produces field guns, two types of howitzer, light machine guns, shells and propellants. Indian ordnance factories are equipped to repair larger types of guns than she can as yet produce."

"Between 250 and 300 trade workshops and some 23 railway workshops also assist in producing nearly 700 different items of munitions supply involving the production of over 20 million articles. The production of 4.5" howitzer and 25-pounder shell forgings in railway workshops and the machining of shells in jute mills have been established. Among the important munitions items manufactured by them are empty shell fuses, mortar bombs, grenades, anti-tank mines, and high explosives."

"It is not possible to give exact figures but by the middle of 1941, India was making about five times as many guns a year as were made in peacetime; the output of filled shell, by June 1941, was already 24 times the pre-war output. There have been similar increases in other items and India now supplies much more than 50 per cent out of some 40,000 items needed by the Defence Services."

Chemicals and Drugs. The Indian chemical industry has been very deficient, especially in the manufacture of alkalies, but even before the outbreak of hostilities some attention was being paid to it. Many entirely new companies were started in the 1936-37 boom which are now bearing fruit. The war has created a welcome demand for the output of these factories just at a time when they have placed their output on the market.

Name of the company	Year of formation	Date of commencing operations	Chemicals produced	Factories situated at
The Alkali & Chemical Corporation of India Ltd.	1937	April 1940	Soda Ash Caustic Soda and Chlorine.	Kherwa & Rishra
The Mettur Chemical & Industrial Corporation Ltd.	1936	October 1941	Caustic Soda, liquid chlorine, Bleaching powder & Hydrogen.	Mettur Dam
The Mysore Chemicals Fertilisers & Ltd.	1937	May 1940	Sulphuric & other acids. Ammonia & other salts	Belagula

Name of the company	Year of formation	Date of commencing operations	Chemicals produced	Factories situated at
The Mysore Chemical Manufacturers Ltd.	1938	Sept. 1940	Industrial and fine Chemicals	Chikbana-bar. & Belagula
Tatas Chemicals Ltd.	1939	*1	Soda Ash Caustic Soda and allied Chemicals	Mithapur

* Not yet commenced operations.

The above table shows that between 1936 and 1939 as many as 7 new factories were set up and work commenced during 1940 and 1941. Mention should also be made of a caustic soda factory (capacity 750 tons) operated by Rohtas Industries Ltd. at Dalmianagar (Bihar), a company started in 1939 to manufacture sulphuric acid from iron pyrites at Guldhar near Ghaziabad (U. P.), the Pioneer Chromate Works opened in May 1941 in the suburbs of Bombay to produce sodium and potassium bichromate, and a proposed factory near Bombay to produce 10 tons of sulphuric acid per day. The War-Supply Board has sanctioned the erection of a government factory to produce super-tropical and

tropical bleaching powder. The U. P. Govt. has granted financial help to the glass industry for the manufacture of soda ash on a small scale. A factory near Ahmedabad has recently embarked on the production of acetic acid from acetate of lime. A firm in the Punjab has set about preparing oxalic acid and a Calcutta firm produces boric acid. In addition to this there are a number of small scale producers supplying sulphuric acid and allied products.

Sulphuric acid is one of the chief products of the Heavy Chemical industry. It is vital for the manufacturing of other acids and salts. No reliable figures are available but it is estimated that in 1939 there were 20 important sulphuric acid works in India¹ and the output of sulphuric acid was in the neighbourhood of 30,000 tons² per annum. The pre-war industry in India suffered from two severe defects. The factories utilised imported³ sulphur obtained from Italy and Japan, the supplies

¹ cf. Dr. S. S. Bhatnagar, *Indian Finance Year Book*, 1940, p. 115.

² cf. *Industry*, issue for December 1939, p. 543.

It is worth mentioning in this connection that in the opinion of Dr. John Mathai the total production of the existing heavy chemical industry, including fertilisers, represents a third of the total Indian consumption of chemicals based on sulphuric acid. (*The Statesman*, Indian War Industries Supplement, dated October 25, 1940, p. 7).

³ The other minor sources of production have been the iron works where sulphuric acid is secured as a by-product from the smelting of ores.

of which were naturally upset when these countries entered the war. Moreover, the scale of operations of the sulphuric acid works has been small with the consequence that the cost of production has been too high. Though sulphuric acid enjoys a natural protection because of costly freight, the industry did not make much progress because of an absence of large scale production partly due to insufficient demand. To some extent both these difficulties are now overcome. The Mysore Chemicals and Fertilisers Ltd. will produce 9,000 tons of sulphuric acid per annum and Bombay is planning a factory which will produce 3500 to 4000 tons per annum. Moreover, it is now possible to manufacture sulphuric acid from iron pyrites of which we have considerable supplies in Bihar, Simla Hills, and Tinnevely districts of Madras. Large deposits of high grade rock sulphur, amounting to approximately 85,000 tons of sulphur bearing rock with an average sulphur content of about 60 per cent, have been discovered by the Geological Survey of India at Koh-i-Sultan in Baluchistan. A further 3 to 4 lakh tons of 35 per cent sulphur bearing rock can be obtained by mining at another locality near Sanni. Similar deposits have also been found in other places. They can very well form the back-bone of our sulphuric acid industry.

The production of fertilisers and manures requires the help of sulphuric acid and the new developments will assist this industry. It has been esti-

mated¹ that in 1939 we produced about 20,000 tons of sulphate of ammonia and 2,600 tons of superphosphates as against a consumption of 90,000 tons per year. The source of production is partly by synthetic means and partly as a by-product in the manufacture of coal gas and metallurgical coke. The Mysore Chemicals and Fertilisers Ltd. have a capacity of 7000 tons of synthetic sulphate of ammonia per year. There is still much scope for the manufacture of fertilisers in India because as yet we produce only a portion of the Indian demand. Moreover, imports have declined in recent years from 1,08,000 tons valued at Rs. 125 lakhs in 1939-40 to 51,000 tons valued at Rs. 80 lakhs in 1940-41. This gap has to be filled.

We hardly produced any alkalies before 1940 and it is only recently that this vital industry has made some headway. It has been estimated² that the annual consumption of soda as caustic soda, sodium carbonate and bicarbonate is of the order of 1,00,000 tons per annum and in the past we had to depend mostly on imports. We imported 25,000 tons of caustic soda valued at Rs. 45 lakhs and 66,000 tons of soda ash valued at Rs. 61½ lakhs in 1938-39. In the future the Indian industry will supply a much larger share. The Alkali and Chemical Corporation of India Ltd. proposes to produce

¹ cf. N. N. Sen Gupta in the June 1940 issue of Indian Farming.

² cf. Dr. H. K. Sen in his Address to the Chemical Manufacturers Conference, November 1939.

20,000 tons of soda ash and a good amount of caustic soda per year. The Mettur Chemicals and Industrial Corporation Ltd. will supply 2,000 tons of caustic soda and the Rohtas Industries Ltd. supplies nearly 750 tons per year. The exact amount to be supplied by the Tatas is not yet known but taking all the sources together our dependence on imports will be much reduced. The economical production of caustic soda will help our soap and textile industries and of soda ash our glass industry.

We have also depended on imports for the supply of dyes and colours: the imports increased from Rs. 5 crores in 1939-40 to Rs. $6\frac{1}{2}$ crores in 1940-41 and Rs. 7 crores in 1941-42. Due to the war, we are short of alzarine and coal tar dyes, 90 per cent of which came from Germany. The U. S. A. has supplied part of the deficiency but much still remains to be done. The difficulty in India arises from the fact that the existing demand for coke is not enough to support a coke industry on a scale commensurate with the utilisation of coal tar derivatives on an industrial scale. Efforts are being made to procure khaki dyes from local material and the Pioneer Chromate Works opened in May 1941 will provide chemicals necessary for this purpose.

Before the war we depended on imports for a major portion of our drugs and medicines though the Indian industry had made some progress between 1909 and 1939. Whereas in the beginning of the century we had only 2 or 3 manufacturing firms, the number has now increased and it has

been estimated¹ that in 1935 we manufactured medicines worth Rs. 60 lakhs as against Rs. 2 crores worth of imports. Before the war we were very deficient in the production of essential oils, extracts of alkaloids, and biological products such as sera, vaccine, etc. Such solvents as chloroform, benzine ether, and acetone had to be imported from abroad.

The war has necessitated the manufacturing of many drugs and medicines in India. The government medical depot factories are now manufacturing from indigenous raw materials 350 items of medical supplies which were formerly imported. The Indian Drug Manufacturers have also helped in producing equivalents or substitutes for essential imported drugs. The extent of their effort may be judged from the fact that as compared to the Medical Store Departments local purchases in India to the value of Rs. 16 lakhs in 1938-39 and Rs. 24½ lakhs in 1939-40, the value of purchases in 1940-41 rose to Rs. one crore. It was revealed at the Medical Stores Supply Committee held in Simla on October 6, 1941 that now 60 per cent of all items of medical stores are being manufactured in India as compared to 25 per cent at the commencement of hostilities.

A sugar factory is reported to be producing liquid glucose on a large scale. A Bengal firm has successfully manufactured chloroform of suitable quality. India is now manufacturing 1,75,000

¹ Capital 1935 Supplement, pp. 34-36.

gallons of Tinctures a month. We have also produced dry blood, certain disinfectants, vitamin C tablets, and certain oils. But we are still very deficient in the production of alkaloids and some essential oils. A special attention has to be paid to fill this gap.

Engineering and Metal Works. India's engineering industry, in the past, had only interested itself in repair work, supply of structures and stores to order, and small scale output of many types of simple general and electrical appliances. We did not have large scale workshops devoted to mass production of specialised products. The industry has developed along general lines and it is, therefore, not possible to give an exact idea of the productive capacity available when the war broke out. The war has, however, brought new and significant changes in the organisation, technique, and productive capacity of this industry.

Even before the war, some workshops in Bombay, Calcutta and elsewhere manufactured parts of tea, jute, and cotton textile machinery. In the U.P. and Bihar sugar machinery, mostly crude, has been manufactured for a long time. In the Punjab, the U. P. and other places crude agricultural machinery had long been manufactured. Moreover, some workshops made machine and tools for their use and some also supplied such products as simple lathes, drilling and shaping machines for sale in the market. There has, however, been no large scale systematic production of machinery or machine and tools in India. The war has developed the machine

and tool workshops but it has not yet encouraged the manufacture of complicated machinery, for which we have still to depend on imports.

It was only after the Government of India introduced, with effect from 1st March 1941, the Machine Tool Control Order that we have obtained some information about the number of workshops and their output. Under this Order a licence is required for the production and sale of machine tools and now the Government of India acquires the whole output. Under this Order as many as 71 licences were issued upto August 1941 and it was estimated that these workshops produced nearly 400 units per month. Since then it is known that over 100 workshops are engaged in the production of machine tools ranging from simple drills and lathes to special machines for munition purposes. Higher class machine tools such as cold saws and horizontal bars are also being produced. Lathes, drillings, shaping, planing, slothing, back sawing machines, furnaces, power blowers, sand blasting plant are among the machine tools, plants, and equipment now being made in India in substantial quantities for the first time. The output of these workshops is now over 500 units per month. In addition to this, some railway workshops and jute mills are producing machine tools. Tatas supply a further 50,000 tools of varied types per month. But we still have to depend on imports to a very large extent. It does not need much emphasis that every effort has to be made to increase the local supply in view of the fact that 'before tanks, air-

craft, and guns can roll into service, factories must be provided with special power-driven machines called machine tools. These machine tools operate on the rough cast blocks received from the foundry and on steel from the rolling mill or forge, cutting, drilling, boring, grounding, and shaping the metal into such form that parts will fit together in final assembly.'

Two factories, one at Worli (Hind Cycle Ltd.) and another at Phulwari Shareef (Hindustan Bicycle Manufacturing and Industrial Corporation Ltd.) are producing bicycles, which is a new development. In the beginning some parts have to be imported in order to do the assembling work. Several other firms are also producing bicycle components and spare parts and at least two workshops, one at Karachi and another at Jhelum, have made good progress. It is expected that soon we shall have a capacity to produce a large number of bicycles per month and all the parts, with the exception of free wheel, chain, and hubs, will be produced in our own country. The assembling of sewing machines from imported parts has long been done in India by some foreign companies. It is now learnt that two workshops, one at Calcutta and another at Lahore, have undertaken to manufacture sewing machines but some parts have to be imported. It has been estimated¹ that in 1939 nearly 7 concerns manufactured electric lamps and supplied nearly $6\frac{1}{2}$ per cent of the total Indian

¹ cf. Statesman Supplement, April 29, 1939, p. 8.

demand. Electric fans, motor, transformers and insulators of various kinds are also being manufactured. The Engineering Colleges at Benares and Dayalbagh have done much to develop our electric goods industries.

There are over 100 re-rolling mills out of which more than a dozen are fairly big. These are, however, very rough estimates, no better being available. Even a rough estimate cannot be made about the total output of rod, wire and wire nails in our country. There are at present nearly half a dozen workshops producing substantial quantities of wire and wire nails. The Indian Steel and Wire Products Limited produced 40,000 tons of rod and 23,000 tons of wire and wire-nail in the year ending March 1940. The Indian Steel Rolling Mills produced between 20,000 and 30,000 tons of rod. The United Iron and Engineering Works, started in 1941, can produce 1800 tons of rod per year working on single shift. The National Iron and Steel Company Limited and the National Screw and Wire Products Company, formed in November 1941 supply a fair amount. These figures only give a very incomplete picture but the war has greatly stimulated the output of these workshops and some entirely new products are now being manufactured. Indian workshops are now producing bright nuts and bolts, roller bearings, mineral jelly, lead tubes, electric cables, special degaussing wire, bridges, cast iron pipes, cranes, and A. R. P. material. There is a great necessity of coordinating the work of these workshops. A systematic

survey has yet to be made to discover their war potential.

Neglected Opportunities. Indian economic history is full of neglected opportunities sometimes by the Indian industrialists and sometimes by the government. In the last three years the government has neglected to develop the automobile and locomotive industries with very serious consequences for our industrial system.

Mr. Walchand Hirachand and Sir M. Visveswaraya have left no stone unturned in informing the public that with a capital investment of 2 to 3 crore of rupees it should be possible to manufacture 10,000 cars and 5,000 trucks per year at economical prices. In the beginning parts will have to be imported but after some two years most of these could also be manufactured in India. The technical skill could be drafted from the engineering workshops. It has all along been emphasised that a fair return of 20 per cent could be earned on the initial outlay. These people wanted three facilities from the Government of India. It was proposed that $37\frac{1}{2}$ per cent revenue duty should be made a protective duty. The government should consider the automobile industry as a war effort and should consequently grant the necessary dollar exchange and import permits in preference to civil needs and should guarantee the purchase of a certain number of vehicles from this company for civil and military use. The government was asked to guarantee a $3\frac{1}{2}$ per cent interest on capital outlay. Not all these demands are reasonable

but it passes comprehension why the reasonable ones should have been turned down. Some of the arguments used by the government are really funny. We are told that the scheme is vague, giving help to this industry will only mean giving help to a private American company, the industry may not survive the post-war period. The government refused to place orders for military trucks in advance fearing that the quality of Indian produced cars and trucks may be hopelessly below military specifications. All these are lame excuses. These arguments stand out as meaningless even when we compare the attitude of the government towards other industries in whose development they were interested. Every scheme, by its very nature, is vague in the beginning. Some amount of uncertainty is attached to every new enterprise. In many cases the military specifications had to be relaxed to admit some Indian made products and why should we assume that the quality of Indian made cars will be below military specifications. But equally mysterious is the attitude of Indian industrialists who have refused to take the necessary risks. It should have been hard for the government to turn down any reasonable demand after the concern had been set going, and if the government still refused help that would have clearly exposed it. Things as they are, the automobile industry has not yet been started.

Some meter gauge locomotives have long been manufactured in India at Ajmer and Jamalpur, but in the past broad-gauge locomotives were not built

because it was feared that the Indian demand was not enough to support a workshop. An expert committee came to the conclusion, in 1940, that the optimum capacity of a locomotive factory is 70 broad gauge engines of an average weight of 145 tons each and 70 additional boilers and other spares, equivalent of 100 whole locomotives. On the other hand, the committee concluded, the average annual requirements of Indian railways over the extended period of about 35 years, the life cycle of a locomotive, is expected to be 108 broad gauge locomotives and 38 meter gauge locomotives. This demand will sustain a factory. All the parts except copper tube plates, boiler tubes and super heater elements could be manufactured in India. The necessary technical skill and guidance is also available. The government could provide Rs. 5 crores the capital cost and, if so desired, the money market could put up this amount. The necessary machinery and equipment could have been imported from America under the lease-lend arrangement and it could also be imported from some other countries through the British Ministry of Production. The Tatas were contemplating the supply of wheels, tyres, and axles even at that time which they have now made a reality. The Government of India, however, working on familiar lines came to the conclusion that the work of setting up a factory should not be proceeded with. This has not only hampered India's industrialisation, it has also put the Indian railways to serious inconvenience because it is not possible to import locomotives at the present time.

According to the statistics of the railways themselves¹ the number of locomotives required for replacement during 1941-44 is 604 broad gauge and 267 meter gauge. During normal times these 871 locomotives would have been replaced. Let us add to this 200 locomotives given by the railways for defence purposes. This brings the total deficiency of locomotives to 1071. The rolling stock programme does not provide for even a tenth of this figure by 1942-43. Some of the locomotives ordered over two years ago have not yet been received and the expenditure provided for 1943-44, because of the difficulty of securing supplies, relates to 84 broad gauge and 20 meter gauge locomotives. The shortsightedness of the government in not setting up a locomotive factory has cost us dearly.

5. What Next

Our task in this section is to evolve the outlines of a policy capable of immediate application. Such a policy cannot be indifferent to post-war problems, but here we shall try to confine ourselves to the prevailing war-time conditions as far as possible. To win the war is our primary aim but a systematic and fast industrial advancement of India occupies no less an important place in our thoughts. And though we are powerless to do much in this direction in the abnormal conditions now prevailing and we shall have to wait to be able to enforce a wholehearted

¹ cf. Capital, August 27, 1942, pp. 309 and 329-30.

scheme of industrialisation, but we cannot afford to be indifferent or idle even at the present time. What is it that can be done at the present time to assist India's industrialisation?

1. Our industries, only with few exceptions, have earned good profits¹ due to the war and it is in the competence of Indian industrialists to make the best possible use of these profits. We should not repeat the mistake of certain industries which dissipated most of the profits they made in 1914-18 and suffered heavily in the post-war depression. It cannot be denied that the shareholders deserve to get a portion of these war profits in the shape of higher dividends. Higher dividends increase the popularity of industrial investment and this consideration is of very great importance especially in a country like India where capital was 'shy' in the past and has a reputation of being so even today. Moreover, the shareholders get nothing or next to nothing when the industry is depressed and it is proper that they should be recompensed by higher dividends when industry is making higher profits. Similarly, the industrial workers deserve to get bonus payments partly because their wages are low and partly because these extra payments encourage the workers to put in their best. But it should not be forgotten that in our country the problem of future reconstruction has an equal, if

¹ According to an estimate made by the *Indian Finance* (Oct. 31, 1942, p. 694) the industrial earnings in India increased by about Rs. 100 crores in the first three years of war.

not a greater, claim on these higher earnings.

It is unreasonable to allocate funds for depreciation at pre-war rates. In order to win the war it has become necessary to work our industries at the greatest possible pressure. Factories which had never worked more than a single shift in the pre-war period are now called upon to work double and treble shifts per day. This night and day working depreciates machinery at a much faster rate. Machinery, very much like the human body, needs rest and wears out much quicker if worked continuously. It is for this reason that a much larger share of profits, than before the war, has to be set aside for this purpose. In addition to this, much of our existing machinery especially in the cotton textiles, paper, and sugar industries is obsolete and out-of-date and, in view of faster depreciation, the only practical course will be to replace the entire lot by new and up-to-date plant after the war. Finally, as always happens in a major war, new technical inventions bring about revolutionary changes in the technical equipment of industry. Indian industry, in order to meet competition from modernised factories in foreign countries, will itself have to become up-to-date. All this will need funds—huge funds—and in the interests of the shareholders themselves larger reserves have to be created for this purpose out of profits now being made.

The Indian industry was in need of rationalisation even before the war. It is a well known fact that there are too many small and inefficient units

in all our industries except perhaps iron and steel and paper. Even today, in spite of the war demand, there is excess capacity in our jute, sugar, cement, and coal industries. It does not need much imagination to realise that this excess capacity will become more acute in the post-war period when the inflated war demand will cease to exist. In self-defence it will then be necessary to close down many of the less efficient units. It has, however, been our experience in Great Britain and elsewhere that generally these inefficient units are financially the strongest. In other words, the problem of rationalisation reduces itself to one of finance. In peace time, and this will apply with equal force to the post-war period, the efficient units are not always in a position to contribute enough money for buying up their less efficient rivals. The war has given us a splendid opportunity to forestall this difficulty. It is time that each industry has a central organisation strong enough to undertake rationalisation after the war. Most industries in India have a central organisation and it should be possible to strengthen those that are ineffective and weak. It should be a wise policy for all the companies in a particular industry to credit some reserves to the account of this central organisation. These funds can be used to buy up and close down the inefficient units in the post-war period. The removal of the diseased limb will strengthen not weaken the industry. What is more, this will also be in the best interests of the shareholders themselves because it is they who suffer most from

cut-throat competition and a life-and-death duel between different firms in an industry. The Government of India have already set a good example by announcing their readiness to contribute an amount upto one-tenth of the net excess profits tax provided the assessee deposits a sum equal to double this amount to a reserve to be used for the object of assisting industrial rehabilitation after the war. It is necessary to make this scheme popular by increasing the proportion of government contribution¹. The industrialists have to be encouraged to maintain substantial separate reserves for purposes of industrial reconstruction after the war.²

2. We have to safeguard ourselves from becoming victims of a negative policy of letting things drift as chance dictates. It is of vital importance to have a positive plan of development whose only aim should be to further India's industrialisation during and after the war. Such a policy will have to take care of many things. Rather than rush for all types of new industries our aim should be first to consolidate those that have already been set up. Some examples will make the point clear. It is not

¹ Since this was written, the Excess Profits Tax Ordinance 1943 has been enforced which provides for compulsory deposits by the producers of one-fifth of the net E. P. T. to the post-war reconstruction fund to which the government contributes half this amount. Unfortunately the Ordinance does not increase the government contribution.

² The Author's contribution to Capital dated Dec. 10, 1942, pp. 849-50.

enough to do assembling of parts and do repair work in our aircraft factory. We should get down to the manufacturing of all the parts even during the war period so that our position may be strengthened in the future. It is not enough to utilise our 'shipbuilding yards' for constructing only small craft and for repair work but we have to undertake manufacturing boilers, engine parts, and copper tubes and fittings. The Vizagapatam yard has to be made productive and the smaller yards have to be reorganised and coordinated, so as to be able to turn out sea-going vessels at economical costs. The Government Clothing Factories do the cutting and get stitching and sewing work done on contract basis by private tailors. We have to continue this work in the shape of a ready-made clothes industry in the future. It is, therefore, necessary that the work of these private tailors should be coordinated and automatic sewing and stitching and buttoning machinery should be used so far as war conditions permit so that when the war is over the mass production may serve civil needs by supplying ready-made clothes at cheap prices. Many other similar examples could be given.

But though it is necessary to be cautious there is no justification for permitting awkward gaps to continue to exist in our industrial structure. We are as yet very deficient in chemical, machine manufacturing, general and electrical goods industries. We do not as yet have an automobile industry and a broad-gauge locomotive factory. We depend on imports for many toilette articles, sport goods,

articles of stationery, radio sets, typewriters, wrist watches, cameras, among other things. Efforts have to be made to fill in these gaps. Further, as is well known the Indian industry has neglected research and a provision for systematic technical training to its personnel. Now is the time that this backwardness can be overcome. The Supply Department of the Government of India should be induced to take a broader view of its responsibilities and this combined with courage on the part of Indian industrialists should be able to achieve the desired goal.

Finally, though we shall have to wait for the post-war period to carry out a thorough rationalisation of Indian industry, experience in Great Britain shows that much useful work can be accomplished under the pressure and necessity of war. As has already been pointed out, most of the Indian industries stand in need of rationalisation and it is perfectly possible to close down the inefficient ones and increase the output of the efficient units even during the war period. Coöperation now secured will reduce the chances of cut-throat competition in the post-war period and will thus make the organisation of Indian industry healthy and vigorous. It is obviously not possible to draw up a detailed scheme of war-time rationalisation for Indian industry in this section but it should be possible to draw up such a scheme without much difficulty. Its enforcement will of course involve courage and a readiness to face facts on the part of the government as well as the Indian industrialists.

3. Indian industry has also to prepare itself to meet the scorched earth nuisance, if such an opportunity arises. It cannot be denied that the Government of India is thoroughly justified in destroying those industries which might be of use to the enemy if he succeeds in sweeping the country. In this war industrial resources play a most predominant part and no country can tolerate the idea of its enemy waxing fat on resources which may come into its possession by reason of a temporary military success. The best policy for the Government of India, if ever such an emergency arises, will be to destroy factories of direct military use. The question then is what can the industrialists do to safeguard their interests.

It may be stated that a War Risk Insurance scheme has already been enforced in our country and all properties insurable under the Ordinance were insured by May 29, 1942 with retrospective cover from April 1, 1942. The scheme is enforced for two years in the first instance. The insurance will apply to all 'factories' as defined by the Factory Acts of 1939, 1940, and 1941. The basis of valuation will be the actual value of the factory buildings, plant, and machinery on the date of application. The residential and other buildings attached to the factory will be included. A single premium of 4 percent of the value of the property is made payable by instalments. Property becoming insurable at a later date will pay a lower premium. Compensation will be paid in certain well defined circumstances. It has been made clear that the war risks

scheme is not an all-in scheme and destruction on grounds of military necessity and the deliberate relinquishment of assets to the enemy in condition or otherwise are not covered by the insurance. Only accidental damage is provided for. This very much narrows down the scope of the scheme. Moreover, in case of loss or damage the insured will himself bear the total loss if the claim is Rs. 1000 or less, no payment being made by the Government. If the loss is between Rs. 1000 and Rs. 5000 the insured will pay Rs. 1000 and the government the balance. Above Rs. 5000 the government will pay only 80 per cent of the damage, 20 per cent falling on the insured. This scheme spreads out the risk and to some extent safeguards individual 'owners' from financial loss. But the scheme, by its very nature, cannot safeguard the national interest as such.

Individuals will get compensation part of which will be paid by other owners of individual property and part by the tax-payer. But though the individuals will get the money it may not be possible for them to replace the destroyed machinery and plant even in the post-war period. Even a free country will find it pretty difficult to replace all the technical equipment without much loss of time while in the case of India the situation is far more complicated. The best policy, therefore, is to save as much of the technical equipment from destruction as is possible consistently with military requirements.

Two things are needed. The Government of

India should scrupulously follow the principle that only those projects and plants may be destroyed which are likely to be of 'direct military use' to the enemy.¹ And as this phrase "direct-military-use" is not free from ambiguity it is necessary that a detailed list should be drawn up beforehand, though it need not be made public, of those projects which will be destroyed in a possible emergency. It is also of very great importance to decide beforehand the stage of emergency at which the scorched earth policy will be put into force in any particular area. It is conceivable, on the basis of experience in other countries, that undue loss may be inflicted simply out of panic when the situation does not really demand it. It may be necessary to entrust the work of taking decision, in case of emergency, to a very responsible officer of the government who may also be conversant with the industrial needs of the country. On the same principle, effort has to be made to remove to safer areas into the interior at the nick of time some parts of our precious technical equipment in order to continue to help the war effort as well as to safeguard our interests in the immediate post-war period. Such a step has to be planned beforehand if it has to stand a fair chance of success. That part of the equipment and some entire fac-

¹ It was stated on behalf of the Government of India in the Council of State in September 1942 that it is not contemplated to follow the Russian Model of scorched earth policy in India. A more definite statement of policy, however, is necessary.

tories which can function even in the interior should be removed to safety at once as transport facilities permit. A certain amount of extra cost is worth incurring in the interests of our industrial future.

CHAPTER III

SMALL SCALE AND COTTAGE INDUSTRIES

The small scale industries¹ were in a miserable condition before the war. They suffered from lack of organisation, difficulties of finance, and cut-throat competition from foreign as well as from large scale producers in our own country. The war has given a very welcome stimulus to these industries and has saved most of them from collapse. This happened in many ways. In the first place, the large scale industries, more especially from the middle of 1941, have been working under heavy pressure in order to supply the war requirements. At present it is difficult, if not impossible, to get machinery from abroad and we do not manufacture much of it ourselves, hence it is not possible to enlarge our large scale industries beyond a certain limit. The natural consequence has been a greater demand on the small scale and cottage industries especially for the supply of such commodities as woollen and cotton handlooms including blankets,

¹ It is not possible to clearly demarcate the small scale industries from the large scale units. In some cases there is only a difference of degree and the technique and organisation are almost alike. But for our purpose a more exact differentiation is not necessary.

camouflage nets, tentage, military hats, durries, leather and rubber goods. Secondly, the existence of large scale industries presupposes that quick and sufficient means of transport are available for the raw materials and the finished commodities. Due to the war, the transport facilities available to large scale industries, as to every body else, have been curtailed. So that, in order to supply the local demand it has become inevitable to produce locally as many commodities as possible. The dislocation of the transport system in case of air attacks points in the same direction. Small scale and cottage industries, therefore, inspite of the higher costs of production in some cases, provide the only alternative solution. Finally, it is a well recognised fact that many of the factories which become necessary due to the war will have to be liquidated in the post war period. Liquidation is easier, or let us say the consequences of winding up are less serious, in the case of cottage and small scale industries than in the case of large units.¹

Ever since the war started both the central and provincial governments have been paying much attention to the development of the small scale and cottage industries. A substantial portion of the war orders has been placed with these industries. The first Small Scale Industries Conference held in New Delhi in March 1942 decided to encourage the

¹ cf. The Author's leading article on "Small Scale and Cottage Industries" published in the Capital dated October 1, 1942.

activity of these industries and it was planned to purchase 25 per cent of total war requirements of certain items from them. Arrangements were also made to order goods through the provincial co-operative departments (or the directors of industry) who were also asked to supply the raw materials, finance, and technical guidance and to supervise the work in the process of manufacturing. This was expected to give some help to the small scale producer.

In the year 1941-42, the Supply Department ordered goods worth Rs. 4.98 crores from these industries out of which camouflage nets accounted for Rs. 182 lakhs, woollen blankets for Rs. 118 lakhs, leather goods for Rs. 96 lakhs and pith hats for Rs. 44 lakhs. In 1942-43, goods worth Rs. 10 crores have been ordered and it is expected that bigger orders will be placed during 1943-44. This has meant a substantial help to the small scale and cottage industries and it has been estimated that in 1942 nearly 12 to 15 million workers were engaged in these industries as compared to nearly 2 millions in large scale industries.

In addition to this the central and provincial governments have given financial and technical help. Ever since 1935, the Central Government has granted Rs. 5 lakhs each to cotton and woollen handloom weaving and Rs. one lakh to the silk industry. In the first instance these amounts were granted for five years and have subsequently been renewed annually. Nearly all the provinces are spending substantial amounts for

the amelioration of the small scale and cottage industries though it must be admitted that as yet the effort has been very meagre and much still remains to be done.

SOME SPECIFIC INDUSTRIES

1. The handloom weaving is by far the most important industry and it is spread out all over the country. It has been estimated that there are about $2\frac{1}{2}$ million handlooms producing nearly 2000 million yards of cotton goods per annum. The woollen industry employs nearly 3 lakh workers and produces 10 million lbs. of blankets, 5 million lbs. of piece-goods, and $1\frac{4}{5}$ million lbs. of carpets.¹ The industry is mostly concentrated in the U. P. and the Punjab though it also exists in various other parts of the country. Not even rough estimates are available for the silk industry.²

The war has brought work to the handloom weaver. He has been busy producing *dosuti* or double yarn for tents, bandage cloth, gauze cloth and buntings. Some weavers have left their usual work and have taken to camouflage net making. The woollen industry is supplying blankets and other woollen fabrics for the army. The silk in-

¹ The figures for cotton weaving relate to 1940 and those for the woollen industry to 1936. These estimates, however, do not give more than a very rough idea.

² It is estimated that Benares, which is one of the biggest weaving centres in India, produces finished goods worth Re. one lakh per day.

dustry has been manufacturing parachute silk cloth. The handloom workers have benefited by the war in the sense that their income has increased though the competitive power or the future prospects of the industry have not improved in any way.

The elimination of Japanese competition and the increased demand for the output of handloom industry have been beneficial features of the war but the difficulties of getting yarn, dyes and colours have upset the weavers. The silk industry has suffered much by Japan's entry into the war because it cut off the source of raw material supply and has led to a shrinkage of the export market. The woollen industry also suffered by a fall in the imports of woollen yarn though efforts were subsequently made to overcome this difficulty.

2. The hosiery industry occupies an important place especially in the U. P. and Bengal. According to an estimate¹ the hosiery industry in Bengal produces goods worth Rs. 60 lakhs while the U. P. industry produces goods worth Rs. 20 lakhs per annum. The two chief centres of production and distribution are Calcutta and Cawnpore, though the Punjab has recently made good progress in this direction. Cawnpore is the chief distributing centre in the north while the chief consumer for finer goods is Bombay. Bihar, Assam, and Orissa which have no local manufacture take only the coarser types.

¹ cf. Mukul Gupta, "Hosiery Industry in Bengal," 1940.

² Capital dated June 19, 1941, p. 918.

There are some large scale factories with capital amounting to Rs. 2 lakhs but a majority are working on a small scale. The work in the cottage form is mostly of seasonal nature while the factories work regularly. The industry uses diverse kinds of cotton, woollen, silk, mercerised and art silk yarns and the first difficulty which faces it is that of yarn supplies. The Madura Mills supply fine quality hosiery yarn but not many mills undertake this work on account of the difficulty of producing double sized polished thread. Indian mills mostly produce weaving yarn and hosiery yarn had to be imported chiefly from Japan and a serious difficulty was experienced when Japan entered the war. As a result, many hosiery producers had to close down or worked short time. The distribution of the finished commodity also offers difficulty because of foreign competition and lack of organisation among the producers. The war has eliminated Japanese competition but the trade is still disorganised and though the threat of overproduction, which faced it in 1939, is now temporarily removed it will again reappear when the war ends. If the industry is to survive the post-war competition it should rationalise itself.

3. In the glass industry there are some large scale producing units but the small scale and cottage industry is the dominant form. The U. P. is the chief centre. The factory industry is concentrated mostly in the U. P., Calcutta and Bombay and manufactures glass sheets, lamp chimneys and globes, bulbs, tumblers, jars and bottles. The cottage

industry exists mostly at Firozabad (U. P.), Belgaum District (Bombay), and Mysore State and chiefly manufactures cheap bangles from glass blocks and bottles.

The Indian glass industry some 25 years ago supplied nearly one-fourth of the Indian requirements, now it supplies nearly half. The production in 1942, it is estimated, was worth Rs. 2 crores out of which the U. P. supplied goods worth nearly Rs. one crore.

The U. P. has eight hollow-ware factories, one sheet glass factory, two bottle factories, 47 bangle factories and over a thousand cottage workshops. Almost the whole of the glass industry is situated in the western part of the province in the districts of Agra, Aligarh, Moradabad, and Bijnor with the exception of two bottle factories at Allahabad. In Firozabad which holds the sole monopoly of factory made bangles in India about 40,000 people are indirectly connected with the glass trade of whom 23,000 are almost entirely working at bangle manufacturing. The joining operations of the factory made bangles have brought into being an ancillary trade run on contract basis and there are nearly 500 "joining shops" in Firozabad alone.¹ According to Dr. A. Nadel's note² on the U. P. glass industry, the Bahjoi factory produces 5,500 tons of window glass per year. A bottle factory is being set up at Benares which is expected to produce

¹ cf. Capital dated April 30, 1942, p. 582.

² cf. Indian Finance, dated April 11, 1942, p. 573.

3,500 tons of bottles in 1942 while the Ghaziabad factory will produce 1,800 tons of table ware and bottles when it is set going.

The U. P. Government has given much help to this industry. "A glass Technology Section has been established at Benares under the direction of Dr. A. Nadel. Since then modern recuperative furnaces have been introduced and our largest factory as a whole changed over from pot-furnaces to tank-furnaces which are more economical and better suited for mass production. Numerous glass shaping, refining and decorating machines of a modern type have been installed in factories, in some cases at government costs, according to the development plans implemented by the Section. The production of laboratory ware was initiated and also the manufacture of glass beads was introduced as an entirely new cottage industry, following a process hitherto unknown in India. The glass section tends to improve working conditions in Firozabad and other centres and evolves new types of decorative glasses for the bangle and the bead industry. A gas plant is also being built in Firozabad for the use of the cottage workers." A U. P. industrialist has been given a grant, on a subsidy basis, to develop the manufacture of soda ash at Bahjoi where sodium sulphate is already being manufactured and a new plant at a cost of Re. one lakh is installed to convert it into soda ash.

4. The Indian match industry has developed especially since 1922 when a revenue duty gave it chance protection. But from the very beginning

this industry has been greatly oppressed by the competition it received from the Swedish Match Company which established itself in India and has enjoyed the 'protection' in addition to its greater efficiency. The Tariff Board on match industry in 1928 estimated the total Indian consumption at nearly 17 millions gross per year while it estimated the maximum capacity of the factories in India, belonging to or under the control of the Swedish Company at about 6 millions gross and that of the 21 Indian factories, which existed in 1928, at 12 millions gross per year. The actual production was of course less than this maximum capacity.

The imports of matches into India have declined from an average of 12.7 millions gross valued at nearly Rs. 1½ crores during the period 1919-20 to 1923-24 to 1.9 millions gross valued at Rs. 36 lakhs in 1940-41. The production of matches in India amounted to 23.13 millions gross in 1940-41 and 16.52 millions gross in 1941-42.

The small scale industry, however, has gained nothing by this fall in imports and greater self-sufficiency because it has continued to face cut-throat competition from a foreign rival, the Swedish Match Company, which now has a dominant place in the Indian market. Secondly, as the Southern India Chamber of Commerce represented¹ to the Government of India, the small scale industry in addition to a paucity of raw materials and chemicals has to face the disadvantage of a higher impact of

¹ cf. Capital dated July 2, 1942, p. 14.

the enhanced excise duty enforced from 1st March 1941, which the large scale industry has to a large extent escaped by having purchased large quantities of the old banderols at lower rates. The small scale producer has suffered because he was not in a position to do so.

5. The hand-made paper is manufactured at more than a dozen places in the U. P. Bombay, and Hyderabad State. The total number of families depending on this work, however, does not exceed 200. Figures of total production are not available but in 1940-41 the U. P. produced paper worth Rs. 30,000. The main qualities of paper produced are blotting, writing, duplicating, filter, and packing paper. The cottage industry has been greatly stimulated by the fall in imports and by the government reserving for itself 70 per cent of the mill output because both these factors have led to an increase in the demand for hand-made paper. The quality of hand-made paper, however, is uncertain and it is difficult to get uniformity of texture and colour. The industry suffers from lack of technical skill and the future progress will depend upon its ability to overcome this shortcoming.

6. A large number of cottage workers are engaged in making leather goods but no statistics are available about the total output or the productive capacity. A very rough estimate puts the total output of shoes at 70 million pairs per year. In spite of the rise in the price of leather and other materials the leather goods industry has been doing well. The production of army boots alone increas-

ed from $1\frac{1}{4}$ million pairs in 1941 to 4 million pairs in 1943. Early in 1942 it was realised that if certain alterations are made in the standards the capacity for machine-made boots can be increased to about $5\frac{1}{2}$ million pairs per year and, in addition, it is possible to develop capacity in the bazar for the production of 3 million pairs of footwear per year.¹ In addition to boots the army requires harness, saddlery, and other leather equipment which was formerly supplied by the harness and saddlery factory at Cawnpore. Now due to the war a number of leather manufacturing circles and branch harness and saddlery factories have been opened in order to tap the greatest possible productive capacity for war work.

7. In the case of rubber-goods industry, which has made great progress since 1936, though there are some large scale producers, such as Bata Shoe Company, Dunlop Rubber Co. (India) Ltd., Firestone Tyre and Rubber Co. (India), Ltd., Indian Rubber Manufacturers, and the Travancore concern; there are more than 100 small scale producers. This industry manufactures such commodities as general rubber goods, tyres and tubes, water-proofs, and foot-wear. These small-scale producers are mostly located in Bengal and Northern India though they are found all over. It has been estimated² that in 1939 the rubber consumption of the Indian industry amounted to 7,000 tons though by

¹ cf. Capital dated March 5, 1942, p. 324.

² cf. Capital dated August 20, 1942, p. 271-2

1942 it increased nearly three-folds with the consequence that our consumption of rubber now is slightly higher than the production which in 1942 amounted to nearly 16,500 tons. The war has very much encouraged the rubber-goods industry and, what is more, the Government of India have taken effective steps to rationalise it with a view to re-grouping the available capacity in such a way as to increase the production of rubber-goods required for war purposes. This reorganisation has already had the effect of curtailing unnecessary production and is bound to strengthen the industry in its post-war struggle.

8. In soap manufacturing though there are some large-scale producers the majority are small-scale producers scattered all over the country. It has been estimated that in 1941 more than 1000 factories turned out nearly 75,000 tons of soap of all kinds valued at Rs. 3 crores.¹ The industry mostly manufactures laundry soap though a number of producers also make toilet, shaving, and special qualities of soap. This industry has been the most disorganised of all the small-scale units. There has been a severe competition between the different small-scale producers, as well as between our small units and large-scale foreign producers, and unlike some other industries and very much like the match industry this competition has not even been eliminated by the war. This is due to the fact that two of the most powerful British combines have

¹ cf. Capital dated April 24, 1941, p. 604.

started factories in India and continue to offer severe competition to our soap industry which is as yet thoroughly disorganised and disunited. Moreover, though the production of caustic soda and other chemicals in our country has increased, this has not given much relief to our soap industry because due to the war the price of these chemicals as well as that of packing materials has increased much more than the price of soap.

The All-India Soap Makers' Association, which was formed in 1934, made various recommendations with a view to reorganise the industry. It recommended that in all big centres of distribution where raw materials can be procured economically and in abundance, soap boiling should be undertaken on a large scale and all the units should be interested in this venture. This scheme, it was pointed out, would ensure economical purchase of raw materials in bulk, proper test and control of raw materials, and uniform quality of the basic material which the component units could purchase at cost and finish in their own factories. This would also ensure the recovery of glycerine which is wasted if the small scale units boil their own soap. Moreover, this scheme would save locking up of capital by the small scale units in maintaining their boiling apparatus which cannot be worked at full capacity. Secondly, the Association suggested that the producers should confine themselves to a few standard qualities by eliminating some of the various brands now produced. This would reduce the costs of production. Finally, they recom-

mended a sales pool which would remove price cutting and uneconomic competition.¹ Unfortunately none of these suggestions has been put into practice and the chaotic conditions in the industry continue. No one can doubt that in the post war period our soap industry, more than any others, will have to face severe competition and it is only through immediate rationalisation that the future can, to some extent, be safeguarded.

9. The above industries do not exhaust the list of small scale producers because in India a very large number of trades are carried on a small scale. It is not even possible to mention all the small scale industries which include engineering and machine shops, cutlery, lock, and cigarette manufacturers, oil and perfume makers, tailoring and embroidery shops, biscuit, bread, and butter producers, paint and enamel industries, and printing presses. It may, however, be pointed out that the tailoring, cutlery, and cigarette manufacturing industries have derived especial advantage because of war orders. In the Punjab alone the cutlery industry is now supplying 1,00,000 table knives, 25,000 clasp knives, and 25,000 assorted knives per month in two of the districts. It is considered that this output can easily be increased by 25 per cent. Efforts are now being made to induce separate family concerns to specialise in the production of particular patterns. Besides Punjab a large manufacturing capacity has been located in Hyderabad (Deccan) and it is esti-

¹ Cf. Indian Finance Year Book, 1940, p. 165-7.

mated¹ that manufacturers there can undertake production of 5 lakhs of each of the following: spoons, forks, table knives and clasp knives. The total potential capacity of these two sources of supply thus amounts to over 42 lakhs of articles per year and besides these, substantial sources of supply exist in the U. P., Bombay, and Bengal. Similarly, nearly a dozen government clothing factories now supply military garments. The monthly output has increased from 2 lakh garments in September 1939 to 8 million garments early in 1943. These clothing factories do the cutting and engage tailors for doing the stitching and buttoning on a contract basis, thereby encouraging the tailoring industry.

IMMEDIATE PROBLEMS

Although the small scale and cottage industries have been very widespread and have been encouraged by the war they have not received the attention which they deserved. This is especially true of research and technical training. In some cases the quality of goods produced by these industries has not at all been satisfactory and often all the units produced are not quite alike. In the case of handloom blankets, for example, the military standards had to be relaxed in order to admit the output of small scale producers. As we have already noticed the quality, colour, and texture of hand-made paper is not always uniform. Many other similar

¹ Cf. Capital datd March 5, 1942, p. 324.

examples could be cited. The cause of this defect is two-fold. The artisan is not properly trained and he is not able to take advantage of scientific progress. Moreover, there does not exist sufficient provision for systematic research which should tell him how best to utilise his raw materials. There is an urgent need for intensive technical training and research if the small scale producer is to stand on his own legs. But both these require funds and individual producers cannot make provision for them. It is, therefore, necessary that some outside agency should undertake this work on behalf of these industries.

It is essential that some one should guide the small scale producer about the changing tastes of the consumer, the best alternative raw materials, and the most economical way of production. It is only as a result of systematic research that camouflage nets were manufactured in the Madras Presidency from sisal hemp, the quality and designs of handloom products in the U. P. have improved, the new and better type of furnace has been constructed for the small scale glass industry. But at least in the present state of these industries the margin of profits does not permit self-help. Moreover, there is much initial ground to be covered and, for all we know, research on behalf of these industries may prove costly and may bear fruit only after long and strenuous work. The only practical solution, therefore, is that the government should undertake this responsibility. The Board of Scientific and Industrial Research constituted by the Government of

India which has been doing splendid work should be charged with special responsibility for the small scale and cottage industries. The departments of industry in the different provinces have also been helping, though only to a limited extent, in matters of research and technical training. In the U. P., for example, the Forest Research Institute at Dehra Dun and the Harcourt Butler Technological Institute at Cawnpore have undertaken research with a view to reduce the costs of production and improve the quality of handmade paper. Provision is also made at Kalpi and Muttra for training the artisans with a view to revive the industry. Research has been undertaken at the Benares Hindu University on behalf of the small scale glass industry. Similar efforts have been made in the other provinces and some Indian states but in order to make this help effective it would be necessary to intensify and systematise it.

The small scale producer also faces serious difficulties about the purchase of raw materials, sale of the finished commodity, finance, and maintaining the quality of his output. It has been suggested that these faults can, to a large extent, be eliminated if the small scale producers are organised on a co-operative basis. Moreover, it should be possible for the provincial co-operative departments to come to the aid of these producers. The cutlery manufacturers in the Punjab, woollen and cotton blanket makers in the N.-W. F. Province and the U. P., and the camouflage net makers in the U. P. have been helped on the co-operative basis. The

co-operative departments supplied the raw materials, gave technical advice and financial help, supervised the work in the process of manufacturing, and helped in selling the finished commodity to the Supply Department. This experience has been valuable and it should be possible to render this help in a more systematic manner and on a wider scale.

Finally, as we noticed, most of the small scale and cottage industries suffered from overproduction and cut-throat competition but now due to the war, except probably in the case of matches and soap, this competition is suspended but this will not at all be the case in the post-war period. Over-production may face all these industries and they may have to meet severe competition from foreign as well as from large scale producers in this country. It is, therefore, essential that in order to safeguard their future interests these industries should rationalise themselves. This will be partly on the lines adopted by the government in the case of rubber industry and partly on the lines suggested by the All-India Soap Makers' Association. The local co-operative societies, into which all the producers of a commodity in a particular locality will be organised, will be members of a central Association. The Association will decide the price and competition policies and will co-ordinate the work of the co-operative societies. It will also run a sales organisation which will find the best market for the output of these industries. The co-operative society will do the work of local supervision and will

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make it possible for the Association to exercise effective control on the producers. In this lies the future safety of this industry.

CHAPTER IV

STOCK EXCHANGE ACTIVITY

The Stock Exchanges¹ play a vital part in the industrial development of a country. In the first place, these exchanges provide a channel through which industry and government can tap the savings of the people on a long term basis. It is true that a large number of industrial enterprises never make an appeal to the stock exchanges and many might have functioned for years before they issue shares, but a vast majority of large scale producing units draw a substantial portion of their funds from these organised markets. Secondly, people are encouraged to invest their savings in shares and stocks partly because of limited liability and partly because of the facility of converting their holdings into cash at any time without much difficulty. The stock exchanges provide this latter convenience. This function naturally assumes great importance during a war because the element of risk is increased and

¹ There are six stock exchanges in India—two at Bombay and one each at Calcutta, Madras, Lahore and Cawnpore, out of which those at Bombay and Calcutta are the leading ones.

Cf. The Author's article on 'Indian Capital Markets' in the Financial Times (Calcutta) for January 1942, pp. 12-15.

people are more ready to invest their money if they feel that they can realise cash at short notice. Finally, the stock exchanges are very sensitive to changing political, social and cultural conditions. The changing values on these markets also reveal the trends in the economic prospects of various industrial units. Hence the industrialist, the investor, so also the student of economics, can feel the pulse of the nation by watching the trend of changing values on the stock exchanges.

The Indian stock exchanges are open to adverse criticism regarding their organisation and functioning but the experience of three years, 1940 to 1942, reveals the capacity of these markets to adjust themselves to changing conditions. We expected, relying on our experience in the past that occasional military reverses, which are a necessary feature of every major struggle will induce a heavy fall in the value of industrial shares, that as time passed the value of industrial shares will rise to unprecedented levels, and further we expected a fall in the price of government paper and fixed interest bearing securities. This should have happened if, as the war progressed, the (long period) rate of interest and industrial profits (dividends) kept on increasing and the latter increased at a relatively higher rate than the former. In this case the capitalised value of fixed interest bearing securities would fall and that of industrial shares would rise. But these expectations have not come true. In the first place, the Reserve Bank of India has maintained the cheap money policy and the Bank rate has not

been allowed to rise above 3 per cent. The other rates in the markets have also been low, thus removing one essential feature of the picture which we had visualised. Secondly, the levy of Excess Profits Tax, the danger of Japanese attack, and other difficulties connected with the import of machinery and essential raw materials prevented an inordinate rise in 'divisible' profits. Finally, the stock exchange authorities have been vigilant and quick to act. This has exercised an healthy influence on the speculators though sometimes they got the upper hand. Consequently, the Indian stock exchanges have withstood the shock of war much better than was expected.

1940. The active conditions experienced in the share markets during the last four months of 1939 continued in January, 1940 and in the Bombay market at the end of the first week the Tata Deferreds touched Rs. 2,390, Tata Ordinaries Rs. 436, and Bombay Dyeings Rs. 1,212-8-0. There was an all round rise of prices but the break came in the middle of the month and by 30th January, the Tata Deferreds slumped to Rs. 1,845, Tata Ordinaries to Rs. 345, and Bombay Dyeings to Rs. 880. This was due to many factors. In the first place, the boom conditions which had developed in the closing months of 1939, had already spent themselves out. Weak sellers were unloading their holdings to realise whatever profits they could. Secondly, the commodity prices were declining and the prospective fall in profits damped the stock exchange enthusiasm. Finally, the prospects of excess pro-

fits tax and a general uncertainty about new taxation had a depressing effect on the market. In the next nine months, except for a temporary boom in the middle of February, and a tremendous setback in the third week of May, the market behaved erratically depending on the news of war. The setback in May, 1940, was due to the fall of France and the great reverses which the Allies then suffered. The Indian investors became nervous and the Stock Exchange authorities had to take special measures to control the trouble. It was only in the middle of November, that activity again increased and the Tata Deferreds touched Rs. 1,880, Tata Ordinaries Rs. 370, and Bombay Dyeings Rs. 1020. This buoyancy was due to two causes: the optimism of Wall Street pulled up the Indian share market and the prospects of profits in our country also improved, but the prices were not maintained. There was a set-back early in December and the year 1940, closed dull but steady.

1941: The dull conditions continued in January, 1941. In the first week of February, there was an improvement in prices. In the Bombay market, the Tata Deferreds improved to Rs. 1,938 12-0, the Tata Ordinaries to Rs. 379, and Bombay Dyeings to Rs. 1039-2-0. In Calcutta the Dunlop Rubbers increased to Rs. 41-8-0, though that was partly due to higher dividends declared at that time. The price of Indian Irons and Steel Corporations also increased, but the improvement could not be maintained. It faded out by the middle of the month and the prices of Indian Irons

fell back to Rs. 30-6 and of the steel corporations to Rs. 18-7. On the whole it might be said that, except for the prices of gilt-edged and some preference shares, the first two months of 1941 were dull. It was due to the uncertainty of the war situation, especially in the far east, and the uncertainty caused by the impending budget.

In the first two weeks of March, there was an improvement in prices due partly to better advice from the western centres and partly to speculative activity, especially in the Calcutta market. But once again the improvement proved temporary. The conditions became depressed by the middle of April and in the last week Indian irons slumped to Rs. 26-8, steel corporations to Rs. 16-4, Bengal coals to Rs. 340, Indian cables to Rs. 19, Dunlops to Rs. 36-10 and in the Bombay market the Tata Deffereds declined to Rs. 1780, Tata Ordinaries to Rs. 361, Bombay Dyeings to Rs. 1027-8. The depression in April and May was due to various causes. The war news had a disturbing effect on the market. It was further intensified by labour troubles and communal disturbances, especially in Bombay. The week sellers unloaded their holdings on the market and in general there was a disinclination to increase commitments. The prices on the Bombay stock exchange suffered more than those at Calcutta but both the markets were depressed. Conditions began to improve towards the end of June, and a sustained prosperity was maintained from July to November except for temporary set-backs. The real break in prices, which had achieved great

heights, came on 8th December, 1941, as a result of Japan declaring war on England and the U. S. A.

By the third week of November, 1941, the prices of Indian irons had increased to Rs. 36-12, steel corporations to Rs. 22 6, Bengal coals to Rs. 415, Dunlops to Rs. 46-2 and in the Bombay market, Tata Deferreds increased to Rs. 2335, Tata Ordinaries to Rs. 431, and Bombay Dyeings to Rs. 1450. These boom conditions have been due to three reasons. In the first place, the war demand by this time increased the prosperity of our tea, paper, cotton textile, and iron and steel industries. Commodity prices and profits increased and this was duly reflected in rising share prices. Secondly, the Russian resistance to German aggression and the increasing help given to the allies by the U. S. A., induced the market to take an optimistic view. Finally, the advice from the western markets was encouraging. All these influences caused a boom in the Indian capital market for nearly five and a half months from June to November, 1941. The year, however, closed dull, depressed, and inactive because of the crisis of 8th, December, 1941.

1942. The Japanese entry into the war caused a severe crisis on the Indian stock exchanges and week sellers liquidated their holdings. Prices had a steep fall and there was a panic. The stock exchange authorities, as in the past, took prompt action. The committee of the Calcutta stock exchange met on December 8th, 1941, and in

an emergent meeting passed the following resolutions:

“(1) Members are permitted to do ready business only in Government securities (2) any member found dealing under the rates stated below with regard to the shares mentioned herein may be fined up to Rs. 5,000. Indian Irons Rs. 32, Howarabs Rs. 56-8, Steel Corporations Rs. 19-4, Burma Corporations Rs. 3-12, Indian Coppers Rs. 2. (3) The hall must be closed and cleared by 4-30 p. m. Anybody found working after 4-30 p.m. in the hall will be fined Rs. 250. (4) Quotations will be marked upto 4-15 p. m.”

The Bombay Stock Exchange governing board also passed a resolution fixing two sets of minimum prices one for cash dealings and another for January, (1942) settlement for 28 securities, and applied for government sanction. Some of the prices are given below:

	January Settlement (In Rs.)	Cash Dealings (In Rs.)
Bombay Dyeings ..	1,150	1,100
Central India (ordy.)..	350	330
Kohinoor ..	470	445
Tata Ordinaries ..	300	285
Tata Deferreds ..	1,600	1,525

The Bombay Government refused to give the necessary permission unless they were assured that (1) the outstanding business on forward account was either squared up or transferred to cash basis within two or three months and (2) forward trading remained totally suspended for the duration of the war. The stock exchange authorities resisted these terms but after some negotiations an agreement was reached and the government gave

its sanction to the minimum prices. Moreover, with the sanction of the government the stock exchange authorities extended the time of payment against delivery of 28 scrips from the January settlement to the February settlement and the selling out rule in respect of all unsettled contracts was suspended. The method of carrying over outstanding business on forward account from month to month was adopted to make settlement of accounts easy and ultimately forward trading was entirely prohibited from the middle of October, 1942, thus the only forward stock exchange market in our country ceased to exist.

The minimum prices, both in Bombay and Calcutta, proved impossible to enforce. Instead of helping business they definitely hindered it and in most cases transactions were pushed through much below the fixed rates. The following table clearly reveals that the fixed prices were completely out of touch with reality and therefore, it became necessary in the Calcutta market, to revise them in a downwards direction.

CALCUTTA STOCK EXCHANGE

	Minimum Rates Fixed in December 1941 (In Rs.)	Opening Rates on 4th February 1942 (In Rs.)	New mini- mum prices fixed from 16th February 1942
Indian Irons ..	32-0	24-14	20-8
Steel Corporations	19-4	15-4	13-4
Burma Corpora- tions	3-12	2-4	2-0
Indian Coppers ..	2-0	1-13	1-10

But even the revised and lower prices did not long remain realistic and trading was done in complete disregard of these prices. In the Bombay market also the minimum prices remained ineffective and in response to many requests the minimum prices were withdrawn from March 27th, 1942.

The depressed conditions of December continued in the first four months of 1942. There was very little activity and the lowest war time prices were touched for many scrips. The degree of panic and nervousness was greater than in the crisis of May, 1940. This was due to the fact that there was the danger of an actual air raid on the stock exchange cities and the industrial towns of India. The brokers and jobbers were making ready to leave Calcutta and Bombay. The investors became genuinely afraid about the capital value of their holdings. Shares were unloaded on the market in complete disregard of prices. This naturally caused a panic.

It was not before May that the outlook in the Bombay stock exchange improved while Calcutta recorded an improvement only in June. The improvement was only slight and short-lived but it was very reassuring as it broke the long spell of inactivity. The revival was due to better news from Russia, growing power of the U. S. A., and absence of the much expected Japanese invasion. The cotton textile industry was becoming genuinely more active and the possibility of increased profits had a stimulating effect on cotton

shares. Bombay Dyeings after opening at Rs. 1055, (May 1942) advanced to Rs. 1,110, Central India moved to Rs. 340, and Colaba firmed up to Rs. 173. In the steel section Tata Ordinaries opened at Rs. 257, and advanced to Rs. 286 while Tata Deferreds advanced from Rs. 1,310 to Rs. 1,450.

Conditions remained dull from the end of June to the middle of September and the chief cause of this dullness, in addition to the war news, was the internal political upheaval. Even though the Bombay, Calcutta and Madras stock exchanges were open throughout, there was not much activity and prices were depressed.

In Calcutta stock exchange there was a rise in prices and increased buying activity towards the end of September, which also continued in October, 1942. This activity was of an speculative nature because none of the factors, such as the possibility of invasion, enemy air raids, and internal political situation, which were responsible for the depression of prices had as yet been relieved. In Bombay conditions continued to be as usual and the market remained dull.

It was only towards the end of November 1942 that genuine prosperity came to the stock exchanges. The fog by this time was completely lifted and plenty of demand for scrips was forthcoming from the up-country centres. Prices increased, both at Calcutta and Bombay, though in the case of Calcutta the November boom came almost in continuation of the speculative activity of September and October. The Cotton textiles

led the market but by the end of the year almost a craze had developed for the shares of cement, cotton textile, tea, sugar, and plantation companies and iron and steel shares also did not lag much behind. There are many causes for this boom. In the first place, the threat of Japanese invasion became only a theoretical possibility and the prolonged inactivity of the Japanese military machinery convinced the investors that there is nothing much to fear. Secondly, because of the brave resistance of the Russians and greater help from the U. S. A., the chances of British victory improved. The industrialists and the investors felt a sense of safety and confidence and these naturally banished all panic. Finally, as from the middle of 1942, the industrial tempo of the country increased. The allies probably realised that it is necessary to make India one of the chief sources of supply in order to win the war. The demand for industrial products increased and the Supply Department also placed larger orders. Many of our industries including cotton textiles, paper, tea, iron and steel have been working at high pressure. Prices and profits have both increased and this has been reflected in inflated share prices. The revival of confidence has further been assisted by the floatation of a number of new industrial companies and banks since September, 1942.

CONCLUSIONS

The Indian stock exchanges have shown a great vitality in the face of serious crisis. This happened twice: in the third week of May, 1940 and the second week of December, 1941. The stock exchange authorities took prompt action. The first method of meeting the crisis was to close the stock exchanges for a few days so that the shock may be absorbed. The method was, however, used only in 1940, as it was not found necessary to close the stock exchanges in December, 1941. The Calcutta stock exchange was closed 75 minutes before the usual time on May 20th, 1940, and remained closed till the first week of July, 1940. The Bombay stock exchange was closed for 24 hours on May 22nd, 1940, but on the insistence of the Bombay Government it was reopened for cash transactions though forward dealings (except on a cash basis) were not permitted till the middle of September, 1940, when forward dealings in all scrips were allowed.

A second step was taken and minimum prices were fixed for a variety of scrips in the Bombay and Calcutta stock exchanges both in May, 1940 and December, 1941. The object of fixing the minimum prices is to safeguard against weak sellers because an undue fall in the price of shares is not in the interests of either the investors or the joint stock companies. But in actual operation the minimum prices gave rise to two serious difficulties. In the first place, it was our experience both in Bom-

bay and Calcutta that the actual prevailing prices would not rise above the minimum; in other words the minimum also tends to be the maximum and the actual rate. This keeps the market depressed and therefore it became necessary to withdraw the minimum prices as soon as possible. Secondly, in 1940 apart from the difficulty mentioned above the minimum prices were fairly successful in stabilising the conditions but in December, 1941 the minimum prices completely failed in the sense that they were freely ignored and transactions were done much below the minimum prices under the very nose of the stock exchange authorities and in the face of heavy penalty. The chief cause of this difference was the intensity of panic. In 1940 the market was depressed but the brokers and investors did not feel any danger to their personal selves. In 1941 they were anxious to run away to safety as soon as possible and felt a serious danger to the capital value of their holdings. In consequence every one was anxious to realise whatever he could. Because the minimum prices proved ineffective they were withdrawn as we have already seen.

Finally, the stock exchange authorities did every thing in their power to make transactions smooth and to safeguard the interests of the investors. Both in May, 1940, and December, 1941, but more especially at the later date, the stock exchange authorities found it necessary to exercise their reserve powers. Restrictions were imposed on short selling, the hours of business were

rigidly enforced, extensions were granted in the date of settlement. By means of these devices the Indian stock exchanges made heroic efforts to stem the crisis and they had a large measure of success, though sometimes the situation got out of hand.

CHAPTER V

FOREIGN TRADE

India's foreign trade has undergone some changes but has not suffered by the war as much as should have been expected. As Table I clearly shows both the imports and exports have increased, except in 1940-1941, when they recorded a fall as compared to the previous year. Due to certain special causes the exports and imports also declined in 1942-43. Moreover, the rise in exports has been greater than that in imports thus leading to an increasingly favourable merchandise balance of trade which increased from Rs. 16.87 crores in 1938-39, to Rs. 79.90 crores in 1941-42, and Rs. 84.21 crores in 1942-43, and this balance for twelve months ending December, 1942, amounts to Rs. 100.8 crores, which figure is quite unprecedented in the history of India's trade. Further, it should be noted that these figures do not include imports and exports on government account which will further increase the balance of trade in India's favour because the government has exported more goods than it has imported.

TABLE I
INDIA'S FOREIGN TRADE

(In Crore of rupees)

	1938-39	1939-40	1940-41	1941-42	1942-43
Exports (including re-exports)	169.20	213.57	198.71	252.91	194.55
Imports ..	152.33	165.29	156.97	173.01	110.34
Merchandise balance of trade	16.87	48.28	41.74	79.90	84.21

It is worth notice in this connection that in the last war (1914-18) the favourable balance of trade also increased but due to a different combination of factors. As a result of the first impact of the last war, both the exports and imports declined while this time both have increased though the exports have increased more than the imports. In the last war the exports subsequently revived while the imports kept on declining and this increased the favourable balance of trade while in the present war the favourable balance of trade has mounted because the exports have increased faster than the imports.

TABLE II
EXPORTS (INCLUDING RE-EXPORTS)

(In lakhs of rupees)

To	1938-39	1939-40	1940-41	1941-42
U. K.	58,25	75,35	64,92	77,01
Ceylon	5,36	6,74	7,31	9,77
Burma	11,10	13,47	16,23	11,73
S. Africa ..	1,53	3,09	3,03	6,66

1938-39 1939-40 1940-41 1941-42

Canada	2,14	2,14	3,17	6,47
Australia	2,98	5,50	7,34	11,45
New Zealand	43	73	1,30	1,00
Total of British Empire	90,28	119,54	116,61	148,85
U. S. S. R.	38	2	12	71
Germany	8,70	2,98	32	..
Netherland	4,44	2,56	32	..
Belgium	4,48	3,21	46	..
France	6,23	8,15	4,55	9
Italy	2,64	2,08	..	..
Turkey	40	27	18	48
Egypt	1,26	1,78	2,87	5,97
Arabia	1,22	1,35	1,04	2,16
Iraq	67	89	92	3,25
Iran	85	94	57	1,34
China	2,50	8,51	9,96	2,15
Japan	14,82	14,16	9,00	4,59
U. S. A.	14,29	27,18	25,90	46,40
Total of Foreign countries	78,94	94,03	70,29	88,37

TABLE III
IMPORTS INTO INDIA

(In lakhs of rupees)

From	1938-39	1939-40	1940-41	1941-42
U. K.	46,49	41,61	35,94	36,65
Ceylon	1,18	1,46	2,19	3,39
Burma	24,35	31,38	28,62	29,47
S. Africa	35	60	78	1,24
Canada	92	1,37	2,97	6,69
Australia	2,41	2,39	2,48	4,96
New Zealand	16	13	1,18	41
Total of British Empire	88,57	93,11	89,91	105,65

	1938-39	1939-40	1940-41	1941-42
Norway, Sweden and Denmark	2,19	2,51	60	24
France, Belgium and Netherlands	6,75	5,44	2,04	..
Germany	12,96	6,69	9	..
Italy	2,69	2,05	54	..
Switzerland	1,60	1,83	1,24	1,73
Arabia and Iraq	93	1,02	85	1,35
Iran	3,49	3,12	3,40	6,04
Egypt	2,19	2,84	2,75	4,69
China	1,73	2,62	2,85	2,83
Japan	15,41	19,28	21,54	11,79
U. S. A.	9,78	14,86	27,01	34,60
Total of foreign countries	63,80	72,17	67,06	67,65

TABLE IV
EXPORTS (EXCLUDING RE-EXPORTS)
(In crore of rupees)

Year	Total	Manufactured Goods		Raw Materials	
		Value	Percentage	Value	Percentage
1938-39 ..	162.79	47.61	29.25%	73.29	45.00%
1939-40 ..	203.92	75.83	37.10%	85.99	42.10%
1940-41 ..	186.90	81.07	43.30%	61.86	33.10%
1941-42 ..	237.22	109.26	46.10%	65.33	27.50%

IMPORTS

1938-39 ..	152.33	92.75	60.9%	33.18	21.8%
1939-40 ..	165.29	91.81	55.5%	36.13	21.9%
1940-41 ..	156.97	89.51	57.0%	42.10	26.8%
1941-42 ..	173.30	93.68	54.1%	50.05	28.8%

EXPORTS

Exports from India have risen all these years except in 1940-41 and 1942-43. This rise in exports

has been due to the pressure of war and in some cases we have been the best source of supplies for the Allies. Secondly, Great Britain had to face the difficulty of paying in foreign currency for the supplies it obtained from the U.S.A., South American countries, and the continent of Europe. Even the Dominions of S. Africa, Canada, and Australia did not accept *all* of the payment in the shape of sterling. In the case of India this difficulty did not beset the British Government and payments were made in sterling which, as we study in the next chapter, accumulated to the credit of the Government of India. These sterling funds have caused considerable worry to the Government of India who have somehow to dispose them off, but the ease of paying in sterling made India an attractive source of supplies. Finally, the U.S.A., the Dominions, and the non-belligerent European countries have turned more and more to India for making up the deficiency caused by a decline of imports from the enemy countries. Indian industrialists naturally felt happy at this development because they were quite worried by the fall of exports to the enemy countries.

1939-40. Exports (excluding re-exports), as compared to the previous year, increased by Rs. 41.13 crores. The exports of manufactured goods increased by Rs. 28.22 crores and that of raw materials by Rs. 12.69 crores, while the exports of foodstuffs remained almost constant. The most spectacular increase took place in the exports of raw and manufactured jute which

advanced by Rs. 28.9 crores. This happened because in the early phase of the war, the demand for sandbags was very large as the belligerents were busy building stocks as fast as they could. The exports of raw and manufactured cotton, tea, and leather also increased.

The export trade with the continent of Europe suffered the greatest shock and Japan had not yet entered the war. It was estimated that our export trade with the continent of Europe suffered to the extent of nearly Rs. 30 crores but this was more than made up by an increased offtake of other countries. The exports to the Empire countries increased from Rs. 90½ crores to Rs. 119½ crores and that to the foreign countries increased from Rs. 79 crores to Rs. 94 crores. Our exports to the U. K. and the U.S.A. recorded a substantial increase. Among the Empire countries the exports to Australia increased by Rs. 2½ crores, to Burma by Rs. 2½ crores, to Canada by Rs. 2 crores, to S. Africa by Rs. 1½ crores, and to Ceylon by Rs. 1½ crores. Among the non-empire countries, apart from the U.S.A., the only remarkable increase took place in our exports to China which advanced by nearly Rs. 6 crores. Factors which increased our exports to Egypt, Arabia, Iran, Iraq, and Turkey in 1942, had not yet come into existence.

The tendency for the proportion of manufactured goods to increase and that of raw materials to fall which was noticeable in the export trade of India during the pre-war years continued in

1939-40. In this year, manufactured goods amounted to more than 37 per cent (Table IV) of total exports as compared to $29\frac{1}{4}$ per cent in the previous year and the exports of raw materials amounted to 42 per cent as compared to 45 per cent in 1938-39.

1940-41. This is the first full war year as last year's figures cover war conditions only for six months. The exports (excluding re-exports) declined by Rs. 17.02 crores, as compared to the past year. This happened because, though the exports of foodstuffs increased by Rs. 2 crores, and that of the manufactured goods by nearly Rs. $5\frac{1}{4}$ crores, the exports of raw materials declined by Rs. 24 crores.

Decline or Rise
(crore of Rs.)

Jute, raw	—11.99
Jute, manufactures	—3.31
Cotton, raw	—6.58
Cotton, manufactures	+7.91
Oil cakes	—1.19
Hides, raw	—0.98
Wool	—1.58
Oil seeds	—1.84
Groundnuts	—3.12
Leather, Hides and Skins	—1.71

The exports of raw and manufactured jute decreased partly because of the difficulties of transport and partly because by this time most of the countries had built sufficient stocks. The exports

of raw cotton depended mostly on Japan and the U.K. The United Kingdom was having its hands full with the war and Japan was marking time because the Indo-Japanese agreement was not renewed. Japan was also building stocks of cotton from other markets and was trying to reduce purchase from India on a permanent basis in retaliation to the kicks it had received in the Indian market. The exports of groundnuts decreased as an increase in the offtake of the U.K. from 108,000 tons to 214,000 tons did not compensate for an almost complete elimination of the European market. Groundnuts failed to capture the U.S.A. market.

The exports of manufactured goods as a proportion of total exports increased to $43\frac{1}{3}$ per cent and that of raw materials declined to nearly 33 per cent, thus maintaining the tendency which we have already noticed.

The exports to the U.K. declined by nearly Rs. 10 crores, which is mostly accounted for by a fall in the exports of raw and manufactured jute, raw cotton and wool, raw hides and skins. The exports to Canada also declined by nearly a crore of rupees, the exports of both jute and tea having declined. The exports to S. Africa remained almost constant while those to Australia, Burma, Ceylon, and New Zealand increased. Among the foreign countries only Egypt and China took more goods from us than in the past year. On the whole, 1940-41 was an unfavourable year for our export trade.

1941-42. In this year the exports increased and even exceeded the figures of 1939-40. The decline noticed in the previous year was at an end. What is still more, the exports increased more than the imports thus leading to a still higher favourable balance of trade. The exports of foodstuffs increased by nearly Rs. 16½ crores, of raw materials by Rs. 3½ crores, and those of manufactured goods by more than Rs. 28 crores.

						Rise or Fall (crore of Rs.)
Cotton yarn and manufactures..						+ 19.5
Raw Cotton .. .. .	..	..	..	..		- 7.0
Jute manufactures .. .. .	..	..	..	..		+ 8.4
Raw jute .. .. .	..	..	..	..		+ 2.5
Grain, Pulses and Flour .. .. .	..	..	..	..		+ 4.5
Spices .. .. .	..	..	..	..		+ 2.4
Tobacco .. .. .	..	..	..	..		- 0.7
Tea .. .. .	..	..	..	..		+ 11.5
Raw rubber .. .. .	..	..	..	..		- 0.2

The changes in the export trade mostly show the effects of Japan's entry into the war. Our exports of cotton yarn and manufactures, spices, grain and pulses increased, because those countries which formerly depended upon Japan or Japanese occupied area found in us an alternative source of supply. The exports of tea increased because of greater war strain and the necessity to keep nerves steady. The fall in the exports of raw cotton is explained by the elimination of the Japanese market which was our best consumer. We exported less rubber because as a result of fall

in imports and an increased consumption by Indian factories, we did not have much to spare.

In 1941-42, the proportion of manufactured goods in our export trade further increased to 46 per cent (Table IV), while that of raw materials declined to 27½ per cent.

Out of the increase the British Empire was responsible for nearly Rs. 32¼ crores and the foreign countries for Rs. 18 crores. The share of all the Empire countries, except Burma and New Zealand, increased. These two exceptions are explained by the Japanese domination of the Eastern borders of India. It is a matter of some credit to the British navy that at least the exports to Australia recorded an increase. Among the foreign countries, the offtake of Egypt, Arabia, Iraq, Iran, and Turkey increased mostly because of cotton manufactures and because of the goods which, these countries could not obtain from their former suppliers. The exports to the U.S.A. (Table II) recorded a very satisfactory increase while those to China declined and for this the major responsibility rests upon the difficulties of transport.

1942-43. The exports (excluding re-exports) declined by nearly Rs. 50 crores to a total of Rs. 187.60 crores. The exports of manufactured goods dropped from Rs. 109.38 crores to Rs. 95.29 crores, of raw materials from Rs. 65.26 crores to Rs. 42.83 crores, and of food drink and tobacco from Rs. 58.60 to Rs. 46.95 crores.

					Decline or Rise (Crore of Rs.)
Tobacco	..	..	..	..	— 0.71
Coal	..	..	..	..	— 1.11
Seeds	..	..	..	..	+ 0.06
Raw Hides and Skins			..	..	— 1.45
Tea	..	..	..	..	— 7.96
Cotton Yarn and goods			..	..	+ 10.03
Jute Manufactures	..		..	..	— 17.51
Raw and Waste Cotton			..	..	— 12.24

The exports of raw cotton declined because Japan ceased to exist as a market for India's cotton, while the decline in the exports of coal, hides and skins, and jute goods is explained mostly by the difficulties of transport. The figure for the export of tea declined because the exports of tea from India on private account was prohibited as from the middle of September, 1942 following a scheme of block purchase of India's tea by the British Government. The exports of cotton yarn and manufactures increased by more than Rs. 10 crores, as India was called upon to supply markets, formerly supplied by Japan.

The exports of raw materials declined from 28.9 per cent to 23.1 per cent and those of manufactured goods increased from 45.5 per cent to 50.3 per cent of total exports (including re-exports). This tendency has continued as usual.

The share of Empire countries in the exports (excluding re-exports) from India increased from 62.7 per cent (Rs. 148.95) crores to 67.1 per cent

(Rs. 125.86 crores) of the total while, as in the past, the share of the U. K. further declined by nearly Rs. 19½ crores. Among the foreign countries the share of the U. S. A. declined from 19.5 per cent (Rs. 46.59 crores) to 14.8 per cent (Rs. 27.79 crores) of total exports (excluding re-exports) while Japan completely disappeared from the exports map of India. The offtake of goods by Iran, Turkey and other foreign countries, as a proportion of total exports, increased. This happened because these countries were forced by circumstances to purchase more goods from the indian market.

Imports

Imports into India have been checked more than the exports from this country. This has been due to many causes. In the first place, the Government of India have instituted a very rigid exchange control and the import of many commodities is entirely prohibited. This is necessary in order to conserve the available supply of foreign currency, especially of dollars, in order to be able to purchase the essential war commodities. In consequence the imports of such goods as furniture and cabinetware, apparel, glassware and earthen ware, cotton and silk yarns and manufactures have absolutely declined. Secondly, most of our suppliers are busy producing essential war commodities or goods for their own civilian consumption and they cannot afford to spare much for us. Finally, even if we can somehow

manage the foreign exchange and induce the producing countries to allow exports, the shortage of transport imposes a real check on our import trade. Not only have the costs of transport and insurance increased, sometimes space is not available at any cost. The fall in imports, though detested by the consumers, has proved helpful to our industries some of which have successfully filled the gap caused by a fall in imports.

1939-40. The imports increased by nearly Rs. 13 crores, as compared to the previous year and, as already pointed out, this has been an unexpected happening, if the experience of the 1914-18, war had to be relied upon. The imports of foodstuffs increased by Rs. 11½ crores, those of raw materials increased by Rs. 3 crores, while the imports of manufactured goods decreased by Rs. 95 lakhs.

The imports of manufactured goods formed 55.5 per cent of total imports as against 60.9 per cent (Table IV) in the previous year while the imports of raw materials remained almost constant, though subsequently they have increased.

The imports from the Empire countries increased only by Rs. 4½ crores as compared to an increase of Rs. 8½ crores, from foreign countries. Among the Empire countries the imports from the U. K. and New Zealand declined, those from Australia remained constant, while the imports from Ceylon, Burma and Canada increased. Among the foreign countries the imports from Germany, Italy, and other European countries

declined, though as yet the war did not have its full effect. The imports from the U.S.A. increased by Rs. 5 crores, and those from Japan by more than Rs. $3\frac{3}{4}$ crores, as compared to the previous year and this reveals an increasing hold on the Indian market by the U.S.A. and Japan.

1940-41. The imports as compared to the previous year declined by Rs. $8\frac{1}{3}$ crores. The fall in the imports of foodstuffs amounted to Rs. $11\frac{1}{2}$ crores and that in manufactured goods to Rs. $2\frac{1}{3}$ crores. Raw material imports, however, recorded an increase of Rs. 5.8 crores.

					Rise or Fall (crore of rupees)
Grain, Pulses, and Flour	...	...	...	...	-7.46
Sugar	...	...	...	...	-2.95
Oils	...	...	...	...	+2.39
Raw cotton	...	...	...	...	-1.38
Raw Wool	...	...	...	...	+2.04
Machinery	...	...	...	...	-3.53
Dyes and Colours	...	...	...	...	+1.70
Chemicals and Drugs	...	...	...	...	+0.57
Cotton manufactures	...	...	...	...	-2.70

The decline of Rs. 11.48 crores, under Food, Drinks, and Tobacco is accounted for by a fall of Rs. 2.95 crores, in the imports of sugar and Rs. 7.46 crores, in that of grain, pulses, and flour out of which, rice alone accounted for nearly Rs. 5 crores. This fall was due to a scarcity of freight, the short crop in Burma, and the reduced supply from Indo-China and other countries. The decline in the imports of machinery was due to exchange

restrictions and to a shortage of transport. This has handicapped our industry because we do not manufacture much machinery ourselves. The increase in the imports of chemicals, dyes, and colours, in spite of the elimination of some European suppliers, shows the changing industrial requirements of the country. The imports of cotton manufactures were lower because the British industry was harassed by the war and Japan was handicapped by import control.

There was a temporary reversal and the proportion of manufactured goods in total imports increased by $1\frac{1}{2}$ per cent to 57 per cent, but the proportion of raw material imports as usual, increased to 26.8 per cent.

The tendency of the U.S.A. and Japan to capture the Indian market continued. The imports from Japan (Table III) increased by nearly Rs. $2\frac{1}{2}$ crores and those from the U.S.A. by nearly Rs. 12 crores. The imports from the European continent, except for Switzerland from which country imports remained almost constant, more or less disappeared. Iran and China increased their exports to India, while Egypt was successful in maintaining them constant. Among the Empire countries, the share of the United Kingdom still further declined by nearly Rs. $5\frac{1}{2}$ crores to Rs. 35.94 crores. The other Empire countries, except Burma increased their share in India's imports and the tendency for the Dominions to capture the Indian market at the cost of the U.K. continued to operate.

1941-42. The import trade recovered as compared to the past year and increased by Rs. 16½ crores. Foodstuffs recorded an increase of Rs. 4 crores, raw materials of Rs. 8 crores, and manufactured goods increased by Rs. 4 crores.

	Rise or Fall (crore of Rupees)
Cotton yarns and Manufactures ..	-4.6
Raw and Waste Cotton ..	+5.9
Vehicles	+6.2
Machinery	+1.9
Chemicals and Drugs	+0.7
Dyes and Colours	+0.6
Furniture and Cabinetware ..	-0.2
Glass and Earthenware	-0.2
Grain, Pulses and Flour	+0.7
Sugar	+0.7
Oils	+0.8

The reduced imports of cotton yarn and manufactures and the increased imports of raw and waste cotton are due to the war time preoccupation of Japan and Lancashire and indicate the prosperity of the Indian cotton textile industry. The imports of furniture and glassware have declined because they are luxury goods and must yield place to the more urgently needed commodities. The increased imports of vehicles have been due to defence requirements. The fact that the imports of machinery, dyes and colours, chemicals and drugs have improved is due to the greater industrialisation of our country.

The imports of manufactured goods, as a pro-

portion of total imports, further declined to 54 per cent while the imports of raw materials increased to 28·8 per cent.

The Empire countries increased their share in India's import trade by Rs. 15 $\frac{3}{4}$ crores out of which Canada, Australia and Ceylon had the biggest share, although the imports from the U.K. also recorded a slight increase. Among the foreign countries the domination of Japan came to an end with its entry into the war but imports from the U.S.A. increased by a further Rs. 7 $\frac{1}{2}$ crores and this country now exports to us more than 3 $\frac{1}{2}$ times of what it exported in 1938-39. The trade from the continent of Europe has almost ceased. China just succeeded in maintaining its trade with us while Arabia, Iran, Iraq, and Egypt obtained a greater share in our imports. They have successfully supplied some commodities whose imports from the former suppliers were cut off.

1942-43. The imports declined by nearly Rs. 63 crores and this is accounted for by a decline of more than Rs. 20 crores in the imports of food, drinks and tobacco and more than Rs. 44 crores in that of manufactured goods. The exports of raw materials on the other hand increased by nearly two crores of rupees.

				Decline or Rise (Crores of Rs.)
Glassware etc.	..	..	..	-0.64
Paper Stationery etc.	..	..	..	-1.91
Rubber goods	..	..	..	-1.37
Sugar	..	..	..	-1.06
Cutlery etc.	..	..	..	-2.19
Dyes and Colours	..	..	..	-1.54
Machinery	..	..	..	-3.20
Cotton Manufactures	..	..	..	-5.42
Raw Cotton	..	..	..	+0.08
Seeds.	..	..	..	+0.29
Oils etc.	..	..	..	+5.93

"The fall of 36 percent in the value of imports during the year was made up of a fall by nearly one half in the quantum of imports and an increase of one-quarter in the price level. In the result, the price level was practically doubled as compared with 1938-39 and the quantum was reduced to three-tenths." The fall in imports has been due partly to the elimination of Burma and partly to difficulties of transport and foreign exchange. The non-essential imports have been reduced to a minimum. The fall in the imports of machinery, dyes and colours, and chemicals proved harmful to our industry. The fall in the imports of cotton manufactures has caused hardship to the consumer without giving a compensating advantage to the Indian producers who were already working to capacity.

The imports of raw materials increased from 28.8 percent to 47.3 percent of the total while the

imports of manufactured goods fell from 54.1 percent to 44.5 percent, thus maintaining the trend of the past few years.

The share of the Empire in India's imports declined from 61 percent (Rs. 105.63) crores to 55.5 percent (Rs. 61.32 crores) of the total while the share of the U. K. increased from 21.1 percent to 26.7 percent of the total. The hold of the U. S. A. on India's trade was weakened and the imports from that country declined both quantitatively and relatively as compared to the past year. The imports from the U. S. A. have declined from Rs. 34.61 crores to Rs. 19.01 crores constituting 17.2 percent of total imports in 1942-43 as compared to 20 percent last year. But this slackening of trade may very well prove temporary and U. S.A. may regain its importance. The share of Egypt, Iran, and other foreign countries in India's import trade further increased and this is a continuation of last year's trend.

Conclusions

This short study leads us to some interesting conclusions. In the first place, during the war period our imports have suffered relatively more than our exports. A rigid import control and the dominance which Japan exercised on our imports before it entered the war explain this phenomenon. The relatively smaller increase in imports has caused discomfort and annoyance to the consumers but this has not been an unmixed

evil because it has stimulated our industrial activity. The exports to the European and Far Eastern countries declined as they passed into enemy hands but this did not inflict an irreparable loss on us because the commodities so released were partly used by our own industry and were partly supplied to other markets which were too anxious to receive them. It is true that on account of the re-adjustment the producers of certain commodities, such as raw cotton and groundnuts, have suffered because the fall in exports caused a glut in the home market and it was not possible to find sufficient alternative export markets. But such commodities have been few and in any case the magnitude of the loss, when the total situation is considered, is not much.

Secondly, except in 1940-41, the proportion of manufactured goods in total exports has constantly increased and that in total imports has decreased throughout the period. Similarly, the proportion of raw materials in the exports has substantially decreased while the proportion of raw material imports has gradually increased. This is a continuation of the tendency which was noticeable even before the war and we are justified in feeling jubilant about this change because this reveals a greater industrialisation of our country.

Finally, India now has more trade with the Empire countries than in the past. In 1938-39, 52.4 per cent of India's exports (excluding re-exports) went to the Empire countries and 47.6

per cent to the foreign countries but by 1941-42 the Empire's offtake increased by 10.3 per cent to 62.7 per cent of the total. This further increased to 67.1 per cent in 1942-43. Similarly, in 1938-39 India imported 58.1 per cent of the total from the Empire countries and 41.9 per cent from foreign countries but by 1941-42 the Empire's share increased by nearly 3 per cent to 61 per cent though in 1942-43 it declined to 55.5 per cent.

Among the foreign countries the U.S.A. and Japan captured the Indian market. Upto the end of 1941, Japan sent an increasing amount of goods to India and took a smaller quantity of exports from this country, but since then due to its having entered the war our export and import trade with this country declined and has now ceased. The U.S.A.'s share in India's imports increased from 6.4 per cent of the total in 1938-39, 7.1 per cent in 1939-40, 17.2 per cent in 1940-41, to 19.9 per cent in 1941-42 while India's exports to the U.S.A. increased from 8.5 per cent of total exports in 1938-39, 11.9 per cent in 1939-40, 13.8 per cent in 1940-41, to 19.5 per cent in 1941-42. The U.S.A. has gained more advantage than it has given to us but if it has obtained a higher share in our imports it has also taken more goods from us. In 1941-42 the imports and exports between India and the U.S.A. became almost equal with a favourable balance of less than Rs. 12 lakhs in India's favour. In 1942-43, on the other hand, U. S. A.'s share in India's imports declined to 17.2 percent and India's exports to the U. S.A. declined to 14.8

per cent of the total. This left a balance of trade amounting to Rs. $8\frac{3}{4}$ crores in our favour.

In the case of the Empire's trade with India the U.K. has gradually been yielding ground to other members of the Empire. The United Kingdom supplied only 21.1 per cent of India's imports in 1941-42 as compared to 30.5 per cent in 1938-39, while the share of the other Empire countries increased from 27.6 per cent to 39.9 per cent. Similarly, India exported 32.4 per cent of the total to the United Kingdom and 30.3 per cent to other members of the Empire in 1941-42 as against 34.1 per cent to the U.K. and 18.3 per cent to the other parts of the Empire in 1938-39. The other members of the Empire have gradually been elbowing the "Home" country out of India's trade. The children have proved jealous of the mother but this will surprise no one in this modern capitalist world.

CHAPTER VI

FOREIGN INDEBTEDNESS AND STERLING REPATRIATION

Foreign capital has played an important part in India's economic development. Exact figures¹ about the total foreign investment are not available but it is evident that Indian industry has derived great benefits from this investment. We owe our railway, plantation, jute, and coal industries, among others, to the initiative and enterprise of foreign capital. In the absence of foreign investment our industrial system would have been more backward than it is at present. But this advantage has been secured at a high cost. In the first place, foreign capital entrenched itself deeply in our economic system at an early stage with the consequence that now when we have our own Tatas, Birlas, Dalmias, and Walchands, they have to face unfair competition at the hands of Andrew Yules, Shaw

¹ Exact figures are not available but Dr. D. L. Dubey (Public Debt of India, 1930, p. 125) estimated foreign capital investment in India at £ 600 millions; Dr. H. R. Soni (Indian Industry and its Problems, Vol. I, 1932, p. 175) calculated it to be £ 800 millions; the Associated Chamber of Commerce in their evidence before the Simon Commission put it at £ 1000 million sterling.

Wallaces, Octavious Steels and others. The whole array of 'India Limited' companies has caused great complications in our industrial development. Secondly, as should have been expected, foreign capital has only interested itself in those branches of production which do not compete with industry in the 'home' country and which bring good profits. As a result, many awkward gaps have been left in our industrial structure as was pointed out in the first chapter. Finally, especially as regards government loans, foreign capital has been borrowed at unduly high rates of interest. A comparative study of interest rates tells us that the Government of India have often paid much higher rates than the market conditions in London demanded. Even after the cheap money policy was fully mature in England (1934-35) and the British Government had enforced a conversion of £2000 millions worth of loan to a lower level of interest, the Government of India continued to pay a high rate.

STERLING REPATRIATION

In recent years, however, India has gradually been changing from a debtor to a creditor nation. In the beginning this change was due to the nervousness of the British investor who was upset by the partial success of the political agitation in India. The Indian Princes and other members of the Indian aristocracy who, in their own opinion, sink or swim with the British also caught this infection. The 'Safety First' principle induced these

capitalists to shift their funds abroad. This flight of capital was further assisted by the keen competition which the English managing agency houses received at the hands of their Indian prototype. It has been estimated by the *Indian Finance*² that, between 1920 and 1935, nearly £ 260 millions of foreign capital has thus been withdrawn from India.

The Scheme. The Indian Government, however, continued to borrow money in the London market during this period. It was only in 1937 that a halting start was made by the Reserve Bank of India at purchasing and cancelling (repatriation) the sterling loan of the Government of India. The scheme was temporarily suspended in 1938-39 but was systematically resumed in 1940. As a result, almost the entire sterling debt of the Government of India has now been cancelled. Out of a total sterling debt of £ 356.05 millions outstanding at the end of March 1937, £ 307.26 millions worth of debt was retired up to the end of March 1943. The sterling family pensions fund amounting to £ 9½ millions has been transferred to England. The Government of India has paid a lump sum of £ 30.05 millions to the British Government who have assumed responsibility to pay the railway annuities amounting to £ 34.115 millions as they fall due. The railway debenture stocks of the value of £ 18.58 millions have also been

²Cf. Issue dated July 12, 1941, p. 52. The estimate of course is arbitrary and gives only a very rough idea.

repatriated and one year's notice has been given for the redemption of three other such stocks aggregating £ 11.1 millions. In this way gradually but steadily India, at least so far as government indebtedness is concerned, has ceased to be a debtor. It must, however, be mentioned that even today our industry owes the British investor £ 300 to £ 450 millions,³ and before we entirely cease to be a debtor nation this amount will have to be repatriated.

Sterling Funds. The repatriation of sterling debt has become possible because due to the war, among other reasons, the Government of India came in possession of huge sterling funds. In the first place, the balance of trade, on private account, in India's favour has been gradually mounting because the exports have increased faster than the imports. This balance amounted to Rs. 15.01 crores in 1938, Rs. 27.76 crores in 1939, Rs. 55.81 crores in 1940, Rs. 53.18 crores in 1941, and Rs. 100.80 crores in 1942. To this must be added the net export of treasure, the sale proceeds of silver in London, and the money paid by the British Government for purchases made in India on their behalf. All these payments were received in sterling and within four years the Reserve Bank of India acquired

³ The figure of £ 300 millions, as representing the remaining British investment in Indian industry, mentioned by the financial correspondent of the Manchester Guardian is decidedly an under-estimate. We may agree with Prof. B. P. Adarkar's opinion that the correct figure is somewhere in the vicinity of £ 450 millions.

sterling funds exceeding £ 600 millions out of which £ 300 millions have already been utilised. It is important to realise that the acquisition of sterling funds still continues and a proper utilisation of these funds is a problem with which we are now faced.

Method Adopted. The method of repatriation is clear from the following table reproduced from the Reserve Bank of India Report on Currency and Finance for 1941-42¹ (p. 37)

¹ More recent figures are now available. In 1942-43, £ 10.48 million was repatriated through open market purchases, £ 6.67 million under the first and second compulsory schemes, £ 56.21 million by the redemption of 3½% sterling stock 1931 and after, £ 27.06 through funding of railway annuities, and £ 18.58 million by redeeming the railway debenture stock. In this way the total face value of sterling repatriated upto the end of March 1943 amounts to £ 307.26 million and the corresponding purchase value is £ 305.29 million or Rs. 408.08 crores. The total amount of rupee counterparts created comes to Rs. 234.97 crores.

Year	Manner of Repatriation	Face Value £ (Million)	Purchase Value £ (Million)	Purchase Value Rs. (Crore)	Amount of Rupee Counter-parts Created Rs. (Crore)
1937-38	A. Open market purchases	0.84	0.75	1.00	1.12
1939-40	A. Open market purchases	17.09	16.54	22.05	22.79
1940-41	A. Open market purchases	9.22	8.52	11.36	12.10
	B. Licence scheme of 22nd February 1940				
	C. First compulsory scheme of 8th February 1941 ..	2.02	2.02	2.69	2.69
1941-42	A. Open market purchases	60.05	64.70	86.27	80.07
	B. First compulsory scheme of 8th February 1941 ..	12.11	12.36	16.48	16.14
	C. Second compulsory scheme of 24th Dec. 1941	13.08	14.14	18.85	17.44
		73.85	65.78	87.71	..
	Total ..	£ 188.26	£ 184.81	Rs. 246.41	Rs. 152.35

In 1937 the pressure of sterling funds did not exist and the Reserve Bank purchased sterling securities in the open market depending upon its sterling resources and the prices of sterling securities in the London market. In the summer of 1940, as a result of the fall of France, the price of sterling securities sagged and the Reserve Bank purchased freely in the open market, especially between March and October, 1940. The open market purchases in 1940-41 were supplemented by a systematic scheme—the Licence Scheme of 22nd February, 1940—which applied to the terminable loan of the Government of India. The scheme was optional and provided for the creation of rupee loans as counterparts of the sterling loans cancelled. On 8th February, 1941, this optional scheme was replaced by a more comprehensive scheme under which the co-operation of the British Government was obtained who issued a Vesting Order requiring all residents in the U. K. to surrender their holdings of India's terminable sterling loans at a fixed price. The Government of India passed a similar order in India. A compulsory scheme concerning the non-terminable loan was enforced on 24th December, 1941. Up to the end of March, 1942, £ 39.36 millions were repatriated by purchase in the open market, £ 2.02 millions under the Licence Scheme (terminable loan), £ 73.13 millions under the First Compulsory Scheme (terminable loan), and £ 73.85 millions under the Second Compulsory Scheme which applied to the non-terminable loan.

The owners of sterling securities in England

were paid in sterling but all the sterling securities were not owned by Britishers and therefore it became necessary to provide rupee finance to pay the Indian owners of these securities. The problem was solved by creating rupee counterparts for sterling securities which were issued to people in exchange for the sterling securities which they delivered. This was apparently the best method because at one stroke it enabled the cancellation of sterling loan and its replacement by rupee loan. But this was not always possible and payment had sometimes to be made in cash. The necessary cash was secured from government balances, ways and means advances from the Reserve Bank, and loans taken from the Reserve Bank in exchange of rupee counterparts and *ad hoc* treasury bills. In 1941-42 and 1942-43, "in distinction to the earlier schemes, as the prices of Indian rupee securities were temporarily depressed by war developments, it was decided that rupee counterparts would not be attractive to the market and the entire payment was made in cash. The necessary rupee finance was provided by the creation of *ad hoc* treasury bills in the Issue Department" of the Reserve Bank of India. It may, however, be mentioned that out of Rs. 400 crores raised for the various repatriation and funding operations between the end of March, 1937, and the end of February, 1943, only Rs. 160 crores is still (March 1943) in the form of central bank finance.

Criticism Considered. In some quarters there appears to be an apprehension that the repatriation

of sterling loan may after all prove harmful to the value of Indian currency and to the credit of the Government of India. This fear, however, is entirely baseless. To make repatriation possible the Reserve Bank has been authorised to reduce sterling securities and to increase rupee securities in its issue department. Under the Act as modified by an Ordinance it is laid down that the Bank's external assets, i.e., gold coins, bullion, and sterling securities should not be less than two fifths of total assets and the value of gold shall not be less than Rs. 40 crores. Formerly, the Bank could not hold more than $\frac{1}{4}$ th of its assets or 50 crores of rupees, whichever amount was greater, in rupee securities; now this limit has been increased to three-fifths of the total assets. This should, however, cause no panic for two reasons. In the first place, as the Finance Member himself pointed out, the only advantage of holding sterling securities is to be able, in case of need, to liquidate the sterling obligation by selling these securities. The possibility of such an emergency will be positively less now that the sterling obligations of the government of India are reduced. Secondly, it must be realised that even now the assets in gold and sterling are sufficiently high even from the conservative point of view. Hence, we need entertain no fear on this score.

It has also been argued that the repatriation of sterling has *led* to currency 'inflation' in our country. One version of this argument is that the sterling securities held in the Issue Department of the Re-

serve Bank have caused currency expansion in India. What this argument overlooks is that the sterling funds which make repatriation possible have arisen out of a favourable balance of trade and the purchases made in India on behalf of the British Government. It is, therefore, essential that in order to support these two transactions more rupees are issued in India. Whether there is as yet an 'inflation' in our country or not is considered in another chapter but, if at all, the blame of causing 'inflation' can be hoisted only on the excess of exports over imports including the war purchases in India and not on sterling repatriation. A second version is that in the past two years the rupee finance has been found not by borrowing in the Indian money market but by the expansion of currency on the basis of *ad hoc* treasury bills delivered to the Reserve Bank. There is an element of truth in this contention in so far as borrowing in the Indian money market either on the basis of rupee counterparts or fresh rupee loans would have had a 'deflationary' effect. There does not seem much justification in the government plea that in the last two years the conditions in the Indian money market have not been favourable for the issue of rupee loans. The Government of India, therefore, are open to the criticism that on account of a wrong method of raising rupee finance they have pushed more money into circulation than should have been absolutely necessary.

It has further been rightly pointed out that only a half-hearted effort at repatriation was made as

late as 1937, and its pace has been unduly slow. Even today the Government of India are not prepared to go the whole hog and to repatriate British industrial investments in India. Moreover, there was no justification whatsoever to create rupee counterparts at the old rates of interest. The rates in the market were appreciably lower and it should have been possible to raise fresh loans at a cheaper rate of interest. Sterling repatriation ought to have been combined with loan conversion. This was not done. It was only as late as June, 1941, that an effort was made to convert the rupee counterparts to a lower level of interest. The Government of India, in a notification dated June 9, 1941, announced their decision to offer to holders of the $4\frac{1}{2}$ per cent 1950-55 and $4\frac{1}{2}$ per cent 1958-68 rupee, counterparts the option to convert their holdings into the *existing* 3 per cent 1951-54 and 3 per cent 1963-65 rupee, loans respectively, on terms based on the market prices of the loans concerned. The offer was kept open from the 16th June to the 21st June. For purposes of conversion, the 1950-55 loan was accepted at Rs. 110-12-0 per cent and the 1958-68 loan at Rs. 113-8-0 per cent. The issue prices of the 1951-54 and 1963-65 loans were fixed at Rs. 100 and Rs. 95 respectively. The total nominal value of the counterparts tendered for conversion including the holdings of the Government and the Reserve Bank amounted to Rs. 28.56 crores, as against Rs. 32.80 crores of the rupee loans

issued in exchange.¹ The conversion has been welcome to the holders of the $4\frac{1}{2}$ per cent loan because due to heavy premium these loans have been unsaleable in the market and there is a definite advantage in exchanging them for easily marketable securities. It is, however, important to realise that these $4\frac{1}{2}$ per cent loans were purchased by the Government at a premium and, further, the conversion prices of Rs. 110-12-0 and Rs. 113-8-0 per cent are exactly one rupee percent higher than the prices at which they were taken over when the sterling stock was repatriated.² This has inflicted a loss on the Indian Exchequer which could have been prevented if the rupee counterparts were issued at a lower rate of interest from the very start.

EFFECTS OF REPATRIATION

Rupee-Sterling Exchange Rate. The repatriation of sterling is a great achievement and the pressure on rupee-sterling exchange has been removed for ever. The 'Home' charges—payments of interest on debt, annuities on account of railways and irrigation works, payments in connection with civil departments, army and marine charges, India Office expenses, payments for store purchase for India and furlough allowances—amounted to an average of £ 30½ millions in the four years 1936-37 to 1939-40. The budget estimates for 1940-41

¹ Reserve Bank Report on Currency and Finance 1941-42, pp. 35-36.

² Cf. Capital dated June 19, 1941, p. 907.

were £ 11½ million, but the actuals revealed a substantial refund from the Secretary of State for India because the payments made to us by the British Government exceeded the 'Home' charges. This situation has continued ever since. It is expected that after the war is over and the sterling payments by the British Government cease our sterling requirements on account of pensions and provident funds would not exceed £ 6 millions a year, and it may be possible to make an advance provision for this amount from the sterling funds now available.

It will be recalled that between 1898 and 1914, and also from September, 1920 to September, 1924, the exchange value of the rupee was roughly equal to 1sh. 4d. sterling. After the 1914-18, war disturbances and the failure of the futile policy to maintain the rupee at 2 shillings gold the exchange rate from September, 1920, remained in the neighbourhood of 1sh. 4d. to a rupee. It was again artificially forced up to 1sh. 6d. sterling in September-October, 1924, at which level it has remained ever since. This high rate of 1sh. 6d. has been justified by the government and its supporters on three grounds: this rate has now come to exist and has adjusted itself in the economic equilibrium of Indian exchanges; it benefits the importer and the consumer; with this rate the Government of India have to find less rupees to meet their sterling liabilities than they would have to if the rate was reduced to 1sh. 4d. This last argument was their most important stick with which they thought they could beat back the pressing nationalist demand for the

reduction of the exchange value of the rupee to 1sh. 4d. Now this stick seems to have been broken and it should be perfectly possible to determine the rupee-sterling exchange rate on impartial grounds.

Gilt-Edged Market. Moreover, the repatriation of sterling will strengthen our gilt-edged market. In this market the government and public utility securities and bonds constitute the demand for funds and the supply of funds comes from the institutional investors, such as insurance companies and banks, and from private investors who want to hold their savings in the form of government paper. On the whole, we might say that so far the supply of funds in this market has always been more than the demand. The government has not raised large funds in the Indian market. In the pre-war period (1914-18) not more than Rs. 5 crores were raised in any one year from the Indian gilt-edged market; in the post-war period (1920-1930), this annual amount increased to Rs. 30 crores. In the subsequent ten years' period, 1930-1940, due to loan conversion policy among other reasons, not more than 10 to 15 crores of rupees have been raised in cash from the Indian market in any one year. In the three years, 1940-43, due to sterling repatriation and defence borrowings a much larger amount has been raised annually in the Indian market.

THE COMPOSITION OF RUPEE DEBT

(In Crore of Rupees)

End of March	Un-dated	Over Ten Years	Between 5 and 10 Years	Under 5 years	Treasury Bills	P.O. Saving Bank Deposits and cash certificates	Other Obligations	Total
1939	127.75	129.62	112.70	70.89	46.30	141.46	84.34	709.96
1940	139.93	147.24	113.75	49.35	54.71	135.35	87.48	127.79
1941	148.52	182.98	150.31	95.07	68.90	108.80	106.59	861.17
1942	164.18	261.77	68.75	117.16	136.98	95.55	96.61	941.00
1943 ¹	245.50	238.41	91.75	172.80	264.70	93.00	102.29	1208.45

¹ Provisional.

Dealing with the Ways and Means position in the Budget speech on 27th February, 1943, the Finance Member stated that the total borrowings in the seven months July, 1942 to January, 1943, averaged Rs. 19 crores a month. Subscriptions to the Defence Loans from 1st February, 1942, to 31st January, 1943, amounted to Rs. 34½ crores, raising the total proceeds to Rs. 145 crores, since the Defence Loans were first issued in June, 1940. In addition, there was a steady investment of new money in the rupee counterparts of the repatriated sterling loans. Total investments in Defence Loans counterparts and certain provincial loans (raised to repay a part of debt due to the centre) aggregated Rs. 93 crores, over the twelve months and Rs. 267½ crores, since the beginning of the war.

On the other hand, the supply of funds in this market has always been large and has exceeded the demand. This for three reasons. In the first place, the institutional investors generally prefer to hold a portion of their funds in gilt-edged scrips and this tendency has now been greatly strengthened because under the new Insurance Act, enforced since 1st July, 1939, the insurance companies are compelled to hold a very substantial portion of their funds in gilt-edged paper. Secondly, the willingness of the joint-stock banks to advance money on the security of gilt-edged scrips on reasonable terms has made them popular. Finally, in India the average investor seems to prefer security to higher return and in the absence of honest and well-organised industrial investment institutions his confidence in the stabi-

lity of British rule prompts him to invest money in government securities. This disparity between supply and demand will to a large extent be removed and thereby our gilt edged market will be strengthened if the Government of India borrows larger amounts in the Indian market; and this has been one of the consequences of the sterling repatriation programme.

PROBLEM OF FOREIGN CAPITAL

With regard to the future two facts have to be simultaneously realised. The sterling funds are accumulating at an increasing rate and soon we may feel oppressed by the very volume of these funds. But even today, when the sterling loan of the Government of India has been almost entirely repatriated, nearly £ 300 to £ 450 millions of British money are invested in Indian industry. It has been suggested that these sterling funds may be used to purchase the British investments in Indian industry.

Indian opinion is in favour of his acquisition of private British investments by the Government of India and their subsequent sale to the Indian investor for various reasons. In the first place, it has been our experience in the past that foreign capital in India has given rise to the evils of political interference and cut-throat competition.¹

¹ Cf. The Author's contribution "India's Foreign Indebtedness" to the *Modern Review* for November, 1941, pp. 453-456. Also pp. 29-32 and 169-71 of the symposium "Indus-

It has not at all been possible to control these evils. It is, therefore, desirable that now when the opportunity has come we may free ourselves from this nuisance. It may here be noted that in spirit the purchase of this investment is thoroughly consistent with the repatriation of government sterling debt which has already been completed. Moreover, the private British investments in the U. S. A., Canada, Australia, and South Africa have been sold to finance the British war effort and there is no reason why a similar policy should not be followed in the case of India. Secondly, now when our capital market has developed and we can raise our own funds there is no reason why we should allow foreign capital investment to continue. It is possible that in the post-war period, in addition to the resources of the Sterling Reconstruction Fund, we may have to borrow foreign capital but that we will do on conditions which may be compatible with our economic independence and we need not confine ourselves to any one particular money market. Finally, it has been pointed out that due to the war an increasing amount of currency is being pushed into circulation and we are faced with the problem of checking 'inflation'. The Indian investor will readily purchase these British industrial investments if they are offered in the market for sale. This will enable some money to be withdrawn from circulation which may not be possible with the help

trial Problems of India" (Kitabistan), 1942, edited by the Author.

of Defence Loans because they have not proved popular.

Some sterling funds will still remain to the credit of the Indian Government and a proper disposal of these funds should engage our attention. The Finance Member in his budget speech pointed out that the Government have under consideration two schemes for utilising the sterling funds. As we have already mentioned, our sterling requirements on account of pensions and provident funds, in the future, may be £ 5 to £ 6 millions a year. It is proposed to make advance provision for the requisite amount of sterling on the same lines as have recently been adopted in the case of sterling railway annuities. Further, the Government have under consideration the question of constituting a Post-War Sterling Reconstruction Fund out of which machinery and equipment may be purchased for the post-war rehabilitation of Indian industry. These are excellent proposals and will prove of great help to the future of Indian industry provided we are not forced to buy in the British market if we have no desire to do so. The suspicions that the future value of the sterling may be jeopardised or that an improper use may be made of these sterling funds, which have given rise to all sorts of suggestions about converting these sterling funds into gold, stocks of goods, and dollar resources, are thoroughly baseless. We have to face the future with courage and confidence.

CHAPTER VII

THE WAR BUDGETS

Adequate finances and a proper financial policy are as essential for victory in a modern war as military strategy. In the last resort, the financial and economic strength of a country plays the deciding role. But the problem of raising more money has a direct effect on the prosperity of trade and industry. It also affects the distribution of wealth. It is, therefore, essential to pay attention to the methods by which the requisite amount of money is raised because no country can afford to inflict an irreparable loss on its industry.

SOME THEORETICAL CONSIDERATIONS

Taxes vs. Loans. Economists, in general, are agreed that as large a portion of war expenditure as possible should be met by additional taxation and this taxation should fall, as far as possible, on shoulders best able to bear it, so that as the amount to be raised by taxation increases the tax system should gradually become more progressive. A general bias in favour of additional taxation, as distinct from borrowing, arises from three simple considerations. The payment of a higher tax has a psychological effect on the public and it prevents

prolonging the war more than is absolutely necessary. In a democratic country it is through taxation that the public realises its own responsibility if it decides in favour of a long war.

Moreover, during a war, because of conditions of full employment and huge government expenditure the demand for goods and services increases while the supply cannot increase as fast as the demand. The inflated demand of the government competes with the increased public demand thereby leading to a rise in prices. The higher prices in their turn make greater expenditure necessary. Additional taxation, to some extent, helps to break this vicious spiral of rising prices and increased government expenditure. This is so because the additional taxation takes away a portion of the increased purchasing power from the private consumer and thereby reduces his demand. Government borrowing may or may not have this effect. If the money invested in government loans constitutes additional savings on the part of the public it has almost the same effect as taxation, so far as this point is concerned. But if, as very often happens, the loans to the government are made at the cost of industry and the additional income is spent on current expenditure the competition between government demand and public demand continues and borrowing does not have the desired effect.

Finally, additional taxation is better than additional borrowing from the point of view of 'distribution.' A scheme of borrowing inflicts a loss on the poorer sections of the population because in the

case of borrowing the interest on loans, and the original sum, are paid over a number of years, during which time the poor can gradually be taxed to a much greater extent than could have been possible if a sudden demand were made on their limited resources. A tax, such as a capital levy or the excess profits tax, is paid only by the rich. War loans because they allow more time for repayment make it possible to get money from the poor. Moreover, most of these war loans are held by the rich. Part of the taxes to honour these war loans is paid by the poor, but the whole money goes into the pockets of the rich. This causes a further maldistribution of wealth. Taxes need not have this adverse effect.

It is, however, not possible to meet the entire war expenditure by additional taxation. In the first place, a modern war requires huge funds of money and all of it or even a large part of it cannot be met from current taxation. The national income (annual!) of even such rich countries as the U. S.A. and Great Britain is insufficient to stand all the strain. Secondly, taxation beyond a not very high limit begins to annihilate industry and dislocates the economic life of a country. We are, therefore, compelled to use some other method of raising money. Finally, surprisingly enough, a consideration of the future generation imposes a limit on taxation as a method of meeting a war emergency. There is a wrong belief among some people that borrowing causes a loss to future generations because they are taxed to pay the interest and capital.

The point, however, is that if one section of the population is taxed another section receives the payment. There surely is a redistribution of wealth but no absolute loss. The future generation is really harmed more by taxation than by borrowing because it stands to suffer if a policy discourages current savings and it inherits less from us. An additional taxation on current income has the effect of discouraging savings to some extent because peoples' standard of living, specially in the upper classes, is rigid and if a larger share of the income is taken away in taxation the savings are reduced. Taxation beyond a limit, therefore, inflicts a loss on the future generation.

GOVERNMENT OF INDIA BUDGETS

CENTRAL BUDGETS

(In Crore of Rs.)

	1940-41		1941-42		1942-43	1943-44
	Budget	Actuals	Budget	Actuals	Budget	Budget
Total Revenue ..	85.43	107.65	106.39	134.57	140.00	199.30
Total Expenditure ..	92.59	114.18	126.85	147.26	187.07	259.59
Deficit ..	7.16	6.53	20.46	12.69	47.07	60.29
Civil Expenditure ..	39.07	40.57	42.72	43.33	54.07	76.78
Defence Expend. ..	53.52	73.16	84.13	103.93	133.00	182.81
Some Heads of Revenue						
Customs ..	..	37.30	35.11	37.89	35.35	30.00
Corporation Tax ..	..	4.14	12.62	11.66	21.99	42.80
Income Tax ..	..	21.79	27.46	32.40	42.00	59.20
Railway Contribution	..	12.16	10.18	20.17	20.13	27.10
Posts and Telegraphs	..	1.25	1.40	3.41	4.23	8.36
Reserve Bank Profits	..	0.19	1.36	2.45	2.47	3.24
Currency and Mint ..	..	1.94	2.21	3.40	3.26	5.13

As was to be expected the revenue and expenditure have both risen, the latter having increased faster than the former. Between 1940-41 (actuals) and 1943-44 (budget estimates), the total expenditure has increased by more than 127 per cent from Rs. 114.18 crores to Rs. 259.59 crores, out of this the defence expenditure increased by 141 per cent from Rs. 73.16 crores to 182.8 crores, and the civil expenditure by 65 per cent from Rs. 40.57 crores to Rs. 76.78 crores. The revenue over the same period increased only by 85 per cent from Rs. 107.65 crores to Rs. 199.30 crores. All the four war budgets have shown a deficit.

Percentage increase in the
budget estimates of 1943-44
over the actuals of 1940-41

Total Revenue	..	..	..	..	85.13
Total Expenditure	..	..	..	..	127.35
Defence Expenditure	..	..	..	..	140.90
Civil Expenditure	..	..	..	..	64.60

We have to make two enquiries concerning war finance in our country. One, we have to study the extent to which the budget deficits have been met by additional taxation as distinct from borrowing. Two, we have to study the financial settlement between India and the U. K. on the basis of which the defence expenditure has to be divided between the two countries.

Budget Deficits. It may at once be stated to the credit of Sir Jeremy Raisman, the Finance Member,

that he has followed a praiseworthy financial policy¹ all these years. A substantial portion of the deficit has been met by additional taxation and at the same time the new taxes have not been of an oppressive nature. Out of an estimated budget deficit of Rs. 134.98 crores, from 1940-41 to 1943-44, it was proposed to meet Rs. 45.01 crores i.e., nearly 33.3 per cent by additional taxation.

(In Crore of Rupees)

Budget Estimates of			Expected Deficit	Additional proposed taxation
1940-41	..	..	7.16	6.30
1941-42	..	..	20.46	6.61
1942-43	..	..	47.07	12.00
1943-44	..	..	60.29	20.10
Total ..			134.98	45.01

The result of this wise policy has been that the total public debt of India has not increased as much as should have been expected. As a matter of fact

¹ It is completely wrong to assert that the satisfactory position of the Government of India war budgets is only a 'mirage' and an 'illusion' (cf. C. N. Vakil, Financial Burden of the War on India, 1943, p. 47) and the smallness of deficits has been secured by the exclusion of material facts from the Budget. There is no justification in financial theory for expecting the Government of India to include on its expenditure side the money spent on some one else's behalf, because that money is received by the Government and is not its expenditure.

the total public debt of India, partly due to sterling repatriation and partly due to additional taxation, actually declined by Rs. 27.36 crores between the end of March, 1939, and the end of March, 1942.

TOTAL PUBLIC DEBT OF INDIA

(In Crore of Rupees)

End of March	1939	1942
Rupee Debt	709.96	941.00
Sterling Debt	469.10	210.70
TOTAL ..	1179.06	1151.70

It is only since 1942, that the total public debt has increased due to a rapid rise in defence expenditure. The Finance Member in his budget speech pointed out that compared with the pre-war figure of Rs. 1185 crores, the total interest bearing obligations of the Government of India (including the capital portion of defence expenditure) would increase by Rs. 88 crores by the end of 1942-43, and by Rs. 146 crores by the end of next year. This relatively small increase in the public debt of India reveals the care with which the new sources of additional taxation have been tapped to reduce the deficit.

1940-41. In the first war budget the total revenue was estimated at Rs. 85,43 lakhs and the total expenditure at Rs. 92,59 lakhs. This showed a deficit of Rs. 7,16 lakhs and it was proposed to meet it by the following new taxes.

	Estimated yield (Lakhs of Rs.)
1. A 50% Excess Profits Tax	3,00
2. Increase in excise duty on sugar from Rs. 2 to Rs. 3 per cwt. with a corresponding increase in import duty	1,90
3. Increase in duty on motor spirit from annas 10 to 12 per gallon	1,40
	<hr/>
Total ..	6,30

Thus with Rs. 91 lakhs, from the Revenue Reserve Fund, the year was expected to close with a small surplus of Rs. 5 lakhs, though due to certain unforeseen circumstances the expenditure increased as the year advanced and in a Supplementary Budget introduced in November, 1940, the Finance Member pointed out that it had become necessary to meet an increase of Rs. 7 crores, in civil expenditure and an increase of Rs. 14½ crores, in defence expenditure. It was, therefore, proposed to impose a 25 per cent surcharge on all income-taxes including corporation tax and super-tax. This was expected to bring Rs. 5 crores, in a full year. Secondly, an increase was made in postal, telephone, and telegram rates designed to bring an additional revenue of Rs. 1 crore.

1941-42. In the second war budget, the total revenue was estimated at Rs. 106.39 crores, and the total expenditure at Rs. 126.85 crores. This was expected to leave a deficit of Rs. 20.46 crores. The Finance Member proposed to meet Rs. 6.61 crores

of this by additional taxation and the rest by borrowing. The taxation measures and the extra receipts expected from them were:

	Estimated additional revenue (Rs. lakhs)
1. An increase in the rate of Excess Profits Tax from 50% to 66 $\frac{2}{3}$ %	2,50
2. An increase in the central surcharge on income-tax and super-tax from 25% to 33 $\frac{1}{3}$ %	1,90
3. A 100% increase in the excise duty on matches	1,50
4. An increase in the alternative speci- fic duty on artificial silk yarn and thread from annas 3 to 5 per lb. ..	36
5. A levy of 10% ad valorem excise duty on pneumatic tubes and tyres ..	35
	<hr/>
Total ..	6,61

1942-43. The third war budget put the estimated revenue and expenditure at Rs. 140.00 crores and Rs. 187.07 crores, respectively. This was expected to result in a deficit of Rs. 47.07 crores, out of which it was proposed to meet Rs. 12 crores, by additional direct and indirect taxation and Rs. 35.07 crores, by borrowing.

The proposed additional direct taxation, estimated to yield Rs. 5.30 crores, consisted of (a) a tax on incomes from Rs. 1500 to Rs. 2000 at the rate

of 6 pies in the rupee on the excess over the first 750 rupees; (b) a central surcharge on incomes exceeding Rs. 2000, more progressive in incidence than the old flat percentage surcharge, but raising the rate on the whole from $33\frac{1}{3}$ per cent to a minimum of 50 per cent and (c) an increase in the corporation tax to $1\frac{1}{2}$ annas in the rupee. The indirect taxation proposals, estimated to bring Rs. 6.70 crores, consisted of increased postal, telegraph, and telephone rates, an overall surcharge of 20 per cent on the import tariff except on raw cotton, salt, and petrol, an increase of 3 annas per gallon in the excise and import duty on motor spirit, and an increase in the excise duty on kerosene and silver equivalent to the higher customs duties.

1943-44. The fourth war budget with an estimated total expenditure (on revenue account) of Rs. 259.59 crores and a total revenue of Rs. 199.30 crores showed a prospective deficit of Rs. 60.29 crores. The Finance Member proposes to meet Rs. 20.1 crores by additional taxation, and Rs. 40.19 crores by borrowing. Nearly one-third of the additional revenue is to be raised by direct and the rest by indirect taxation. The proposals for direct taxation are (a) an increase in the central surcharge from 50 to $66\frac{2}{3}\%$ over the basic rates of income-tax, (b) a uniform increase in surcharge on super-tax of 6 pies per rupee on slabs of income between Rs. 25,000 and Rs. 3,50,000 and (c) a rise of 6 pies in the corporation tax making it annas 2 per rupee.

The indirect taxation, on the other hand, consists of (a) an excise duty on tobacco so adjusted as

to entail an average increase of approximately 20 per cent in retail prices. This tax is estimated to yield Rs. 10.5 crores. (b) an excise duty on vegetable ghee first proposed at Rs. 7 per cwt. but later lowered to Rs. 5 per cwt. expected to yield Rs. 1 crore and (c) some increases in postal and telephone rates expected to yield Rs. 1.20 crores.

THE NEW TAXES

Excess Profits Tax. It was the first of the new war-time taxes. The Excess Profits Tax Act of 1940 lays down that excess profits over and above a minimum of Rs. 36,000 made after September 1, 1939, will be chargeable to E. P. T. at the rate of 50 per cent. This rate was increased to 66 $\frac{2}{3}$ per cent in the 1941-42, budget and has remained at that level ever since. The tax applies to industry and business but the profits of the profession of a doctor, a solicitor, or an accountant, and of such companies as insurance, are excluded from the operation of the Act.

The tax is to be levied on the excess profits and not on total profits. In order to determine the excess, there must naturally be a standard by which such an excess is measured. The law, therefore, has defined the standard period as a period of any one year or combination of two years between 1935-36 and 1939-40, selected at the option of the assessee, the profits of which will afford what are known as standard profits. This applies to business started before 31st March, 1936. In the case of business started on or after this date, the standard

profits, at the option of the person carrying on the business, may also be computed by applying the statutory percentage, which ranges from 8 to 10 per cent, to the average capital employed in the business.

The excess profits tax proceeds for 1940-41, amounted to Rs. 3 crores, and for 1941-42, partly due to a carry-over of Rs. one crore, and partly because of a rise of $16\frac{1}{3}\%$ in the rate, the E. P. T. proceeds were expected at Rs. 11 crores but this was subsequently found to be an over-estimate and the revised figures for 1941-42, put it at Rs. 8 crores. The budget estimates for 1942-43, and 1943-44, put the yield at Rs. 20 crores and Rs. 40 crores, respectively.

The controversy about the E. P. T. was settled by the end of December, 1941, and it proved to be a good and timely tax. The total tax proceeds up to the end of March, 1944, are expected to amount to Rs. 70 crores. In spite of the fact that this tax has brought good revenue it has not inflicted all the miseries and hardships on Indian industry and business which Indian industrialists expected to be the automatic outcome of this tax. The controversy now has only a historical value.

At the time of imposing the tax the Government made use of two arguments in its support. We were told that the business people cannot be allowed to exploit the consumers to their own exclusive advantage. The gain from higher prices should also be shared by the government, and one of the best ways of doing this is by taxing the

extra profits the business people make. Moreover, the business people do not have a claim to all the extra profits becoming due as a result of the war because such profits are in the nature of a 'wind-fall' and the industrialists and shop-keepers have done nothing to deserve them. Secondly, the government needs more funds to meet its increased liability due to the war. Excess profits tax is one of the methods of getting increased revenue, and there is no reason why the government should not avail itself of this splendid opportunity.

The attitude of the Government of India to this problem was greatly influenced by the experience of the last war and by the fact that the British Government has levied a similar tax in that country. It was, however, pointed out to the Government of India that there is perfectly no reason why a policy which has succeeded in Great Britain should also suit the Indian conditions. There are many vital differences in the two countries so far as the excess profits tax is concerned. British industry has now become mature. The industrial system in that country between 1933 and 1937, experienced a very appreciable revival later turning into a boom. The businessmen made large profits which enabled them not only to wipe off old losses but even to reorganise and overhaul their industries. The iron and steel, the textile, and the chemical industries in that country underwent such a reorganisation. Furthermore, the British industry has benefited by huge government expenditure on armaments and war materials and the excess profits

tax in that country provides a good means of preventing inflationary tendencies. None of these justifications for an excess profits tax then existed in India. In this country we have had a condition of permanent stagnation ever since the post-war boom of 1920. The Indian industry, nothing to say of boom conditions, has not made except recently what might be called normal profits. It is, therefore, unfair to consider the profits of the leap years as standard and levy a tax on the imaginary excess.

In addition to the above argument, the business community opposed the excess profits tax on the ground that the increased industrial activity due to the war already leads to an increased income to the central government in the shape of higher income and super tax proceeds. The industry earns higher profits and pays a higher income tax. If the profits due to the war are considered as a 'wind-fall' it is also just and fair that losses incurred due to the world industrial slump should be considered as extraordinary losses. Both of them are due to forces beyond the control of Indian businessmen. If the government claims to tax the 'wind-fall', it must compensate industry for its losses. It would be perfectly unfair to do one and not to do the other. Hence, because the government has not compensated us for the losses made in the past it should not tax the extra profits. Moreover, the Government of India should take a long period point of view. The main object of its financial policy should be not to balance the budget from year to year but to secure a rapid industrial advancement of the

country. There is nothing sacred in one year as the period of budgetary equilibrium. Principles of sound finance perfectly justify deficit budgeting for some years provided the income and expenditure are balanced in the long run. The test of a good financial policy is the industrial advancement of the country. No government interested in the progress of Indian industry can afford to overlook this principle. Finally, the government should make every effort to curtail its expenditure by a more rigid control of commodity prices in the country. This will benefit the consumers and will also give relief to the government without inflicting a fatal blow on our industrial development. As we have already pointed out these arguments now have only a historical importance.

One criticism, however, is still valid against the manner in which the tax has been levied. The interests of Indian industry have not been properly safeguarded, although it was perfectly possible to adjust the tax in such a way that companies were encouraged to build reserves for future reconstruction, and only those who refused to fall in line with this requirement were taxed. The Indian industry should have greatly benefited if the tool of excess profits tax was used to put its house in order.

The government subsequently seem to have realised such a necessity because in 1942-43, a provision was made by which the government transfers an amount equal to one-tenth of the net proceeds of E. P. T. to a special reserve provided the assessee pays double the amount. The money in this re-

serve will become available to industry for purposes of post-war rehabilitation. This provision, however, was made too late and the government contribution is kept very low. In order to make it popular it is necessary to increase the proportion of government contribution to the fund.¹

Income-Tax. Even in peace-time the income tax had a peculiar significance for the Indian budget. Our tax system, on the whole, is regressive in character and presses more heavily on the poor. It is now widely recognised that such taxes as customs duties and excises have a greater incidence on the poor. This because a higher proportion of the middle class and poor man's income, as compared to that of the rich, is spent on goods which are either directly liable to custom and excise duties or whose prices have increased as a result of such duties on some other goods. The income-tax to some extent corrects this discrepancy; it is possible to make this tax progressively steeper for higher incomes; the rich bear the greater part of this tax. Secondly, though the provinces are the venue of industrial and nation-building activity, the provincial revenues have been inadequate and inelastic in the sense that

¹ It was only in May, 1943, that an Ordinance made it compulsory for all E. P. T. assesseees to deposit one-fifth of the net E. P. T. proceeds with the government. The optional system, which it replaces, was not used extensively, It should, however, have been more in keeping with the spirit of this measure if the government also increased its own contribution.

they do not react to increased trade and industrial activity in the country. The income-tax, however, is very sensitive to such conditions of prosperity and depression.

We have made an admirable use of income tax proceeds in reducing the inelasticity of provincial revenues. Sir Otto Niemeyer laid down a formula which provided that 50 per cent of the net income-tax proceeds should be made available to the provinces on a pre-determined basis though the Government of India might retain for a period of five years, in each year, the whole or such amount as together with the railway contribution will bring the central government's share in the divisible total to Rs. 13 crores. In 1940, however, a change was made in the Otto Niemeyer formula by which the central government can retain from the provincial share, in each of the three years,¹ beginning with 1939-40, a fixed amount of Rs. 4½ crores. The Finance Member justified this change on the ground that the centre has to share almost the entire burden of defence expenditure and therefore, it must keep a larger share of the income-tax which is an elastic source of revenue. The nationalist opinion at that time criticised the change as unfair to the provinces specially in view of the fact that during this period the railway contribution and the central government's share of income-tax would more than exceed Rs. 13 crores. But in spite of this restriction the provincial share of income tax has gradually increas-

¹ This has been continued in subsequent years.

ed from Rs. 1.5 crores in 1938-39 to Rs. 7.39 crores, in 1941-42. The 1942-43 budget estimates put this share at Rs. 8.37 crores, but the revised figures increased it to Rs. 10.55 crores. The provincial share in the divisible surplus is estimated at Rs. 12.1 crores in the 1943-44 Budget.

In order to study some other war-time developments in the Indian income-tax, we may start from 1st April, 1939, when we changed over from the 'step' to the 'slab' system of income-tax assessment. In the step system when income exceeded a certain limit the whole income and not merely the excess over this limit was charged at the higher rate. Under the 'step' system, for example, an income of Rs. 5,000 would pay a tax of 3.4 per cent but that of Rs. 5,333 a tax of 5.1 per cent on the whole income; similarly an income of 10,000 would pay 5.1 per cent but 10,600 would pay 6.8 per cent tax on the whole income. Thus there were sudden jumps in this system: if a man's income exceeded the lower grade by even a small amount he had to pay a tax as if he enjoyed the highest income in the next grade. This was palpably unjust. What is more, this system led to some dishonest practices: the tax payer tried to show too much bad debt in order to remain just within a lower income grade and the income-tax officer made every effort to pull him up into a higher grade of income. The border line cases often suffered injustice. The slab system which is now in use has done away with many of these defects. The new scale of rates introduced in April, 1939, is as follows:

INCOME-TAX

Individuals, Unregistered Firms, Hindu Undivided Families and Associations of Persons other than Companies

	Rs.	Rate
First ...	1,500 of income	Nil
Next ...	3,500 of income	9 pies in the rupee
Next ...	5,000 of income	15 pies in the rupee
Next ...	5,000 of income	24 pies in the rupee
Balance of income		30 pies in the rupee.

No tax is payable on incomes not exceeding Rs. 2,000.

SUPER-TAX

Assessees other than Companies.

	Rs.	Rate
First	25,000	Nil
Next	10,000	1 anna in the rupee
Next	20,000	2 annas in the rupee
Next	70,000	3 annas in the rupee
Next	75,000	4 annas in the rupee
Next	1,50,000	5 annas in the rupee
Next	1,50,000	6 annas in the rupee
Balance of income ..		7 annas in the rupee

Income-tax for Companies—2 annas 6 pies in the rupee. Super-tax for Companies—1 anna in the rupee on the whole income. No surcharge either in respect of income-tax or super-tax.

The exemption limit of Rs. 50,000, for company super-tax was abolished and the flat rate of 2 annas 6 pies was made applicable to such incomes. Individual incomes not exceeding Rs. 2,000, were not

liable to income-tax, incomes just exceeding Rs. 2,000 per annum were liable to income-tax to half the excess of income above Rs. 2,000. In this system, if the income exceeds a certain level the higher income-tax is charged only on the excess and not on the whole income. An income of Rs. 5,000, taking our old example, pays a tax of 3.3 per cent while that of Rs. 5,333 pays only 3.6 per cent. Similarly, an income of Rs. 10,000 pays 5.6 per cent, while that of 10,600 pays only a tax of 6.0 per cent. This is more fair. Secondly, it has been possible to make the slab system much more progressive in character than the old system. The tax for incomes up to Rs. 12,000 per annum now ranges from 1.4 to 6.7 per cent, under the old system it ranged from 3.4 to 6.8 per cent, thus we notice a reduction of income-tax on the lower incomes. The tax on incomes between Rs. 13,500 and 80,000, now ranges from 7.3 to 23.9 per cent, while formerly the corresponding figures were 6.8 to 18.6 per cent. In this way the tax has become steeply progressive for higher incomes.

As has already been pointed out, the first war-time change in income-tax was made in November, 1940, when the Supplementary Budget imposed a surcharge of 25 per cent, on all taxes on income including super-tax and corporation tax. This surcharge was further raised from 25 to 33 $\frac{1}{3}$ per cent, in 1941-42, from 33 $\frac{1}{3}$ to 50 per cent in 1942-43, and from 50 to 66 $\frac{2}{3}$ per cent in the 1943-44 Budget. Moreover, the surcharge was made more progressive in 1942-43. This surcharge of

course only applies to incomes exceeding Rs. 2,000 and it was made more progressive in incidence than the old flat percentage surcharge. The rate on the whole was raised from 33 $\frac{1}{3}$ per cent to 50 per cent in 1941-42 but, to mitigate the heavier incidence on incomes between Rs. 2,000 and Rs. 6,000 a provision has been made to refund a portion of the tax equal to $\frac{1}{2}$ per cent of the assessee's total income after the end of the war.

A second change was also made in the 1942-43 Budget. People whose income is between Rs. 1,500 and Rs. 2,000 per annum are made subject to a tax at the rate of 6 pies in the rupee on the excess over the first 750 rupees. The aim is not so much to tax these people as to induce them to subscribe to the war loans and an option has been given to the new assesseees to escape the liability by depositing in the Post Office Defence Saving Bank account an amount approximately $1\frac{1}{4}$ times the amount of tax assessed, such deposit not being ordinarily withdrawable till one year after the end of war. This is a novel feature.

Finally, in the 1942-43 Budget the corporation tax was increased to $1\frac{1}{2}$ annas in the rupee which has further been raised to annas 2 per rupee in 1943-44. Moreover, in the latest budget a uniform increase of 6 pies per rupee has been made in the surcharge on super-tax on slabs of income between Rs. 25,000 and Rs. 3,50,000. During the four years of war, the income and corporation taxes have proved very elastic and have yielded a good revenue. The incidence has also become gradual-

ly more progressive. The basic rates are left unchanged at 1939, levels and no salary cuts have been imposed. This shows the success with which the Indian Budgets have been managed.

Central Excises. In the past this source of revenue has not played an important part in the central budgets but for a number of years the customs duties, the chief item of indirect taxation, have been declining and the gap has to some extent been filled by the increased revenue from the excises.

(In Crore of Rupees)

	Actuals 1939-40	Revised Est. 1940-41	Revised Est. 1941-42	Budget Est. 1942-43	Budget Est. 1943-44
Customs ..	45.88	37.75	36.00	35.35	30.00
Central Ex- cises ..	6.52	8.50	12.30	12.65	25.42

As compared to 1939-40, the customs revenue is estimated to fall by nearly 29 per cent and the central excises to improve by nearly 289 per cent in the budget estimates of 1943-44. The Finance Member imposed additional excise duties in almost all his war budgets. In 1940-41, the excise duties on sugar and petrol were increased. In 1941-42, the excise duty on matches was doubled and a duty was imposed on pneumatic tubes and tyres. In 1942-43, the excise duties on motor spirit, kerosene, and silver were increased, and in the 1943-44 Budget

two very important excise duties were imposed on tobacco and vegetable ghee respectively. The excise duty on tobacco is estimated to yield Rs. 10.15 crores, and that on vegetable ghee Rs. 1 crore.

The excise duties fall more on the poor and this they have in common with the customs duties which they are gradually replacing as the chief source of indirect taxation in the central budget. And as the country gets fully industrialised, as is bound to be the case in the post-war period, the yield from excises will very substantially increase while that from customs duties will decline. In the past, the yield from excise duties was probably not attractive and the trouble of collection was too great but the war has shown the way to overcome these difficulties. The excise duty as a substantial source of central revenue has now come to stay.

FINANCIAL SETTLEMENT WITH U. K.

The defence expenditure has increased from Rs. 73.16 crores in 1940-41 (actuals) to Rs. 199.66 crores (revenue plus capital account) in 1943-44, and this was only to be expected. A new feature has been introduced in the presentation of defence expenditure from this year and it is divided into two portions. It is only the 'revenue portion' which enters into the budget estimates while the 'capital portion' is separately covered by additional borrowing.

(In Crore of Rupees)

		Revised Esti- mates 1942-43	Budget Esti- mates 1943-44
<i>Revenue Portion</i>			
1.	Basic normal budget ..	36.77	36.77
2.	Effect of rise in prices on No. 1	8.61	10.62
3.	India's War Measures ..	135.96	127.01
4.	Non-effective charges ..	8.41	8.41
Rs.		189.75	182.81

<i>Capital Portion</i>			
1.	Air Forces-aerodromes ..	18.37	2.52
2.	Capital outlay on industrial expansion	12.00	4.00
3.	Reciprocal aid-aerodromes ..	12.75	2.85
4.	New construction for R. I. N.	4.72	3.28
5.	Capital outlay on tele-com- munication scheme ..	1.30	4.20
		49.14	16.85

It is, however, worth notice in this connection that in the past the defence expenditure was on the rise but in 1943-44, it has recorded a decline both on revenue and capital account. This may as well mean that the corner has been turned.

It was in the 1940-41 Budget that details of a financial settlement with the U. K. were revealed. The Indian exchequer according to this settlement was to meet:

1. a fixed annual sum representing the normal net effective costs of the army in India under peace conditions ;
2. an addition to allow for the rise in prices;
3. the cost of such war measures as could be regarded purely Indian liabilities by reason of their having been undertaken by India in her own interest ;
4. a lump sum payment of one crore of rupees towards the extra cost of maintaining India's External Defence Troops overseas.

The total amount by which the net annual defence expenditure incurred in India during the war years would exceed the aggregate of items 1 to 3 would be recovered from the U. K. Government.

It was on the basis of this agreement that the following expenditure on defence and supply was brought to account in the Government of India books as chargeable to the U. K. Govt.

(Crore of Rs.)

1939-40 (actuals)	4
1940-41 (actuals)	53
1941-42 (actuals)	194
1942-43 (revised)	337
1943-44 (budget)	346

In addition, the U. K. Government undertook to supply India without charge a large quantity of aeroplanes, vehicles, guns and other equipments required in connection with the expansion of India's navy, army, and air force. The total value of such free supplies already made or expected to be received by the end of 1942-43, was estimated at Rs. 60 crores, when the budget was framed.

In 1942, it was felt that the U. K. Government was dissatisfied with this settlement and wanted to change it to their own advantage. It was in this connection that the Finance Member visited England and he was successful in inducing the U. K. Government to let the old settlement stand. The decision was taken in view of India's limited capacity to meet the huge expenditure incurred because of the war. We quote below the press report of the Finance Member's statement in the 1943-44 Budget speech.

"The existing arrangements which have worked very well in an atmosphere of mutual cordiality and trust were concluded at a time when no major expansion in land, sea and air forces or our supply activities were in sight. Measures of expansion were then inaugurated and it soon became obvious that all expansions in the land forces in India must be considered as one *joint war measure* and that the cost thereof should be divided as follows:

(a) India should pay for the raising, training, and equipping *from Indian resources* of all land forces raised in India, for their maintenance as long as they stayed in the country and were available for the local defence of India. When they left for overseas the cost to India of raising and training them and also of equipping them would be recovered from His

Majesty's Government who would assume all further liability for them.

(b) All imported equipment and stores for such expansion measures of the land forces from whatever source (with a few exceptions) would be provided free by His Majesty's Government.

The allocation of the cost of expansion of the R. I. N. raised no special problem. As regards the Air Forces in India, the cost of major expansion, like that of the land forces was a joint war measure. The incidence of expenditure on two kinds of activities called for special attention in this connection viz., expansion of the Supply Department's activities and reciprocal Lease-Lend aid to American forces in India. Capital expenditure was being incurred by His Majesty's Government under the former, while a good deal of the industrial development taking place under the expansion schemes would be to the permanent advantage of India. It was to mutual interest of both parties that the allocation of capital expenditure on supply measures should be reviewed. The Finance Member proceeded to England to discuss these and other major aspects of the financial settlement. While His Majesty's Government pressed for a revision, the Government of India's contention was that the present settlement should not be abandoned. The Government of India have now been informed that His Majesty's Government do not intend to pursue the proposal to modify the character of the present financial settlement. The settlement, therefore, stands. As regards allocation of cost of Air Force expansion, India's liability will relate only to the amount of expenditure actually brought to account by India, viz., the capital outlay incurred in India on the provision of airfields and other ground and operational facilities and the recurring costs of the squadrons and connected services while employed in India. As regards supply measures it is proposed that India should provide one-half of the capital required and own all the assets already created or to be created."

It must be admitted that this financial settle-

ment, in substance, is just and fair to India. It could have been much worst if the U. K. had decided to fully exploit its political advantage. We have to face the fact that as yet we are part of the British Empire and we cannot shirk the responsibility of defending ourselves or the other British possessions on which our safety might depend. The burden of defence expenditure on us, so far as it can be judged at present, has been according to our capacity and we have not suffered any irreparable loss because of it. It must, however, be recorded that some sections of Indian opinion are dissatisfied about the possibility of interpreting 'joint war measures' so as to place a greater burden on the Indian Exchequer. Some are worried by the vagueness of the Finance Member's explanations about the lease-lend arrangements with the U. S. A. Some would have liked the settlement to be more favourable to India.

PROVINCIAL FINANCE

The provincial revenues have increased more than provincial expenditure on account of the war. The combined budgets of eleven provinces show a surplus of Rs. 1.61 crores in 1939-40 (accounts), Rs. 2.30 crores in 1940-41 (accounts), Rs. 42 lakhs in the revised estimates of 1941-42. The budget estimates of 1942-43, show a deficit of Rs. 52 lakhs, but the actuals may very well reveal a more favourable condition. Moreover, as the table clearly shows only two provinces, the Punjab and N.-W. F. P. showed a deficit in 1939-40, the rest having a

surplus. In the 1940-41 (accounts) only Bengal, and in the revised estimates of 1941-42 only the Bengal, Assam, and Sind, and in 1942-43 only the Bengal, Punjab, and Sind show a deficit. So that a majority of the provinces had a surplus throughout these four years.

PROVINCIAL BUDGETS

(In Lakhs of Rupees)

	Ac- counts 1939- 40	Ac- counts 1940- 41	Revised Est. 1941- 42	Budget Est. 1942- 43
Madras—Revenue	16,66	18,08	19,42	18,98
Expenditure	16,37	17,55	19,24	18,94
Surplus/Deficit	+29	+53	+18	+4
Bombay—Revenue	13,14	14,48	15,66	15,18
Expenditure	12,83	13,61	15,28	15,17
Surplus/Deficit	+31	+87	+38	+1
U. P.—Revenue	13,52	14,65	16,50	17,12
Expenditure	13,45	14,64	16,32	17,08
Surplus/Deficit	+7	+1	+18	+4
Bengal—Revenue	14,32	13,54	15,29	15,70
Expenditure	13,71	14,45	16,32	16,75
Surplus/Deficit	+61	-91	-1,03	-1,05
Punjab—Revenue	11,69	12,89	14,20	13,54
Expenditure	12,06	12,20	13,95	13,64
Surplus/Deficit	-37	+69	+25	-10
Bihar—Revenue	5,48	6,18	6,51	6,43
Expenditure	5,36	5,88	6,04	5,80
Surplus/Deficit	+12	+30	+47	+63
C. P.—Revenue	5,09	5,26	5,18	5,26
Expenditure	4,76	4,96	5,13	5,23
Surplus/Deficit	+33	+30	+5	+3

Assam—Revenue	2,93	3,29	3,21	3,19
Expenditure	2,92	3,13	3,32	3,17
Surplus/Deficit	+1	+16	-11	+2
N.-W.F.P.—Revenue	1,83	1,92	2,19	1,97
Expenditure	1,87	1,83	2,09	1,96
Surplus/Deficit	-4	+9	+10	+1
Orissa—Revenue	1,88	1,99	2,06	1,97
Expenditure	1,84	1,88	1,97	1,97
Surplus/Deficit	+4	+11	+9	..
Sind—Revenue	4,29	5,20	5,43	4,81
Expenditure	4,05	5,05	5,57	4,96
Surplus/Deficit	+24	+15	-11	-15
<hr/>				
Total Provincial Revenue	90,83.	97,48	105,65	104,15
Total Provincial Expenditure	89,22	95,18	105,23	104,67
(Total Surplus + / Deficit -)	+1,61	+2,30	+42	-52

This happy condition of provincial finance has been due to various factors. The war had a stimulating effect on the receipts of land revenue, excises, and forests. What is more, the new taxes such as the General Sales Tax and the Urban Immovable Property Tax have yielded a good return and, for all we know, they may become permanent and useful features of post-war provincial budgets. Secondly, the provincial share in income-tax has gradually increased from Rs. 1.5 crores, in 1938-1939, to Rs. 12.1 crores in the budget estimates of 1943-44, thus bringing the provincial governments much additional money. Finally, the war though, it has increased the revenue, has not increased the provincial expenditure to the same extent. More

money has been spent on police, civil defence measures, dearness allowances and food grain schemes, especially after the middle of 1942, but this has been more than compensated by increased revenue. The war has shown that all the fears about the inelasticity of provincial finance were baseless, though it must be admitted that, if the provincial administrations decide to discharge all their industrial and social functions properly, the total income of the provinces is still thoroughly inadequate for the purpose.

CHAPTER VIII

INFLATION, PRICE CONTROL, AND RATIONING

The prices of raw materials, foodstuffs, and manufactured goods in our country have recorded a phenomenal rise during the past $3\frac{1}{2}$ years. Some idea of this rise is obtained from the indices of wholesale prices, though of course the 'black market' prices have been much higher. The Calcutta Index Number rose from 100 in August, 1939 to 319 in June, 1943. The Economic Advisor's Index (prices for the week ending 19th August, 1939-100) increased to 197.6 in February, 1943, which is the latest available figure. It is worth noticing in this connection that most of this rise took place after the middle of 1941, and the pace was further accentuated from the middle of 1942. The Calcutta Index did not exceed 137 upto June, 1941. In July it shot up to 150 and reached 169 by May, 1942. Once again it had a big jump to 182 in June, 1942. and has since then been on a rise. Moreover, as between June, 1941 and November, 1942, the Economic Advisor's Index shows a rise of 62.9 per cent in the prices of foodstuffs, 32.1 per cent in those of raw materials, and 60.7 per cent in the prices of manufactured goods. The increase

in the All-Commodities Index over this period was 50.6 per cent. Thus we see that the prices of food-stuffs have recorded the greatest rise closely followed by those of the manufactured goods while the prices of raw materials have risen to a smaller extent.

CONTROVERSY ABOUT INFLATION

In recent months there has been much controversy about the chief causes of the general rise in prices. A majority of the Indian Economists hold the view that *the* chief cause of this is currency 'inflation.' As shown in the table below, the notes in circulation have increased by Rs. 4,64 crores, to which must be added the increase of nearly Rs. 60 crores in the circulation of rupee coins.¹ Bank credit also acts as money but this has not increased as much as should have been expected because, although the time and demand deposits of the Scheduled Banks increased from Rs. 238.16 crores to Rs. 495.63 crores, the advances and bills discounted, over the same period, have recorded a rise of only Rs. 26.6 crores. The investments of the smaller banks have also increased though exact figures are not available. In this way, the money in circulation has increased by more than Rs. 5,20 crores, between August, 1939 and March, 1943.²

¹ There has also been an increase in the circulation of small coins not included in these figures.

² It is not only the quantity of money and goods but also their respective velocities of circulation that have to be considered in connection with 'inflation'. It appears that the

(In Crore of Rupees)

	August 1939	Week ended 26th March 1943	Increase in money circula- tion over this period
Notes in circulation ..	179.95	643.58	463.63
Rupee coins held by the Reserve Bank ..	74.31	14.51	59.80
			<hr/>
		Total Rs.	523.43

This increase in money, it is asserted, is of an inflationary nature. It is not possible to define 'inflation' in an exact language or to prove that the rise in prices has been due *only* to the increased amount of money in circulation. The inflationists have to rely mostly on speculation (so also have those who oppose them) to establish a correlation between the rising prices and the increased money in circulation. It is pointed out that more than Rs. 5,20 crores of purchasing power has passed into the hands of the consumers due to the war.¹ They spend it on current expenditure and this increased demand competes with government demand and thereby leads to a rise in prices. This reasoning is based upon the assumption that the increased money

velocity of goods in circulation has increased faster than that of money, but in the absence of exact information it appears reasonable to assume that there has been a *similar* change in both the velocities.

¹ Since that date the quantity of money in circulation has further increased, the notes in circulation in the week ended 6th August, 1943, amounted to Rs. 749.76 crores.

in circulation will lead to an equal, or almost equal, increase in peoples expenditure on current goods and services. This need not necessarily be the case. Moreover, the increase in the amount of money in circulation may as well be counterbalanced by an increase in the quantity of goods and services, assuming that there has been no change in their relative velocities. The inflationists force themselves into a panic by concentrating their attention only on one side of the transaction.

There has been an increase of more than Rs. 5,20 crores in 'circulation' but a very substantial part of it has been immobilised in *increased* hoards. It is true that we do not have exact figures of the increase in the public hoards of currency notes and coins and we cannot even make a rough estimate but the fact remains that the amount of money hoarded has increased. This is due, partly, to the fact that the uncertainties of war, and the consequent possibility of cash being required at short notice, have induced middle and upper class families to keep some part of their resources in the form of cash. People realise the fact that, in case of sudden flight, gold and other valuables will not help and what is required is cash. This necessity did not exist before the end of 1941, and it is since then that larger amounts of currency notes have been held as reserves. Moreover, the income of a vast majority of people, especially the cultivators and those engaged in government contract work, has greatly increased and in spite of the higher prices these people are able to save some money. It is

not possible to deposit these small sums in the banks and they are held in the shape of currency notes, rupee coins, and small change. A large number of small amounts put together constitute a big sum. Finally, some petty businessmen and people in towns have hoarded currency notes and coins, in addition to gold and silver, out of sheer panic. All these hoards have taken a substantial amount of money out of circulation.

Secondly, the cash held by the Scheduled Banks and the smaller banks have increased because, due to the general uncertainty, they expect a greater demand for cash at short notice especially in view of the fact that the demand deposits have recorded a disproportionate increase. The cash holdings of the Scheduled Banks have increased only by $8\frac{1}{4}$ crores of rupees, but this does not give a true indication because the cash holdings of the smaller banks have also increased. In addition to this, the cash held by the various industrial and manufacturing concerns has increased because of increased requirements of working capital for paying higher wages and increased prices for raw materials.

Further, as pointed out by Mr. G. D. Birla in his booklet, 'Inflation or Scarcity' (p. 13) those "in touch with actual business know that since war started, credit has ceased to play its customary part in the settlement of claims and consequently most of the buying and selling is now done on a cash basis. In pre-war days the resort to hundis, or bills of exchange, on a fairly large scale obviated the need for cash remittances from one place to

another. But things are quite different now. Due to Government's demand for all kinds of goods the volume of sales and purchases has increased but the hundi is not trusted to the same extent and transactions are mostly for cash." This increases the need for cash and to that extent counteracts the tendency towards 'inflation.'

Finally, the production of manufactured goods and foodstuffs has increased and though no reliable figures are available, it may not be wrong to assume that during the war years the production of manufactured goods has increased by 30 to 35 per cent. and that of foodstuffs has increased by 8 to 10 per cent. These are arbitrary estimates but they are probably not far from the truth. This increased production has to be supported by a greater expenditure of money. To quote Mr. Birla once again, before each article is delivered in finished form to Government, more than half a dozen transactions of buying and selling have to take place. The goods do not go straight from the original seller to the ultimate buyer. The process is not complete without a number of middlemen, sub-contractors and labourers coming into the picture. The larger the scale on which buying and selling is done, the greater the need for currency.'

All these considerations put together, though each separately might appear small, clearly reveal that Rs. 5,20 crores of additional money should not give rise to the amount of panic which we have noticed during the past few months. The word 'inflation' has panicky associations, and even the

pamphleteers themselves have become the victims of this panic, and therefore in all fairness it is not wise to use this term unless we are satisfied that all the concomitants of 'inflation' are present. In this connection it is entirely wrong to draw analogies from the U. S. A. or Great Britain because the conditions in our country are on an entirely different footing. Moreover, though exaggeration sometimes plays a useful part, in this matter any exaggeration or undue emphasis on some points and suppression of the others has the danger of misleading the public. The originators of such phrases as 'galloping inflation,' 'the fatal spiral of runaway prices and wages,' 'the hydra-headed monster of inflation' must realise that these are mere catchwords and do no credit to any one. It is true that there has been a great rise in prices and this has seriously upset our economy but the increased amount of currency in circulation is not the only cause of this rise. Of course no one will deny that expansion in currency, along with a number of other causes, has contributed to it. It is, however, necessary to maintain a sense of proportion.

In order to fight 'inflation' a two-fold programme should prove helpful. In the first place, a check should be imposed on private consumption in spite of the fact that most of our people even today consume too little. This can be done by inducing people to save *more* money by offering them better and more attractive facilities for investment. This should be possible by increasing the gilt-edged rate

of interest from 3 to $4\frac{1}{2}$ per cent and by selling the British industrial investment in Indian industry in the open market. It is also a very practical suggestion that the managing agents in India may be induced to unload their holdings in well tried and old business firms. These investments will withdraw a substantial amount from circulation. The managing agents, being better informed people, can be induced to invest these funds in Government Defence Loans or to 'sterilise' them in their bank accounts till such time that the danger has passed. This will involve sacrifice on the part of the managing agents but it is not too much to hope that in the interests of industry they may agree to it. Secondly, every effort will have to be made to encourage production of foodstuffs and manufactured goods so that the expanded currency may be counterbalanced by an increased output of goods and services. These combined with a more rigid control of prices and rationing, if necessary, should be able to overcome the more pronounced effects of inflation.¹

PRICE CONTROL

It is reasonable to expect that in a major emergency like the present war the prices would rise. The demand for manufactured goods, raw materials, and labour has increased while the supply has

¹ Some provincial and the central Government have recently taken action to check 'inflation' but these meagre efforts have as yet secured no improvement in the situation.

not been able to keep pace with this rise in demand. Prices have, therefore, risen. In a capitalist society it is these shifts in price which on the one hand decide as to who will purchase the commodity and who will not and, on the other hand, give the necessary stimulus to the producers and sellers who function on the basis of profit motive. But at the same time a speculative rise in prices has to be prevented because this is likely to throw the economic system out of gear. An undue rise in prices hits the consumers, the salaried people, and the wage earners adversely. What is worse, the wage earners because of higher prices demand dearness allowances and higher wages in their turn further increase the costs of production and consequently the prices. In this way a vicious spiral of rising prices and costs is formed. Moreover, rising prices impose a serious strain on government finances which are already strained because of the war. The consumers are also hard hit and no government worth the name can allow the consumers to suffer unbearable privations if this can be helped. It is for these reasons that price control becomes necessary.

Price Control Conferences. It was with this aim that as soon as the war started the Government of India issued orders under the D. I. R. authorising the provincial governments to fix prices of such commodities as foodstuffs, salt, kerosene oil, and cheaper qualities of cotton cloth so as to be not less than 10 per cent in excess of those prevailing on September 1, 1939. This margin of 10 per cent recognises the fact that some rise in prices is reason-

able though a speculative rise has to be prevented. Subsequently the question of price control was examined by a conference held in Delhi. Between October, 1939 and September, 1942, six such price control conferences have met and our price control system has developed as a result of their deliberations.

"The First Price Control Conference was held on Oct. 18 and 19, 1939. Among other conclusions reached by that Conference it was agreed (1) that the list of essential commodities already notified was adequate; (2) that in the case of imported commodities and those that were of all India importance, the basic price at the first stage should be fixed centrally, and in the case of other goods, by the Provinces; (3) that the normal basis should be 'replacement cost'; and (4) that it was desirable to develop 'a price intelligence service.' The general opinion of the Conference was that it was not at that stage necessary to prevent the rise in price of agricultural products."

"At the Second Price Control Conference, which was held on January 24 and 25, 1940, the general opinion was still in favour of non-interference with rise in the basic prices of agricultural products. The need for co-ordination of activities was emphasised and it was generally agreed that the fixation of prices at the stage of production and at primary wholesale markets should be a Central responsibility; Provincial and State units should be responsible for determining the margins between the primary wholesale stage and the later stages, including the retail stage, of distribution, and to fix retail prices by super-imposing such controlled margins on the controlled or in the absence of control, the current wholesale prices."

"The Third Price Control Conference was held on October 16 and 17, 1941. At this Conference most attention was

paid to the cases of cotton cloth and yarn, prices of which had soared as a result of the freezing order against Japan. This discussion may be said to have been the genesis of plans for the production of standard cloth and for the control of the distribution of yarn. Regarding the position of wheat, the Commerce Member of the Government of India, who presided over the Conference, observed that there did not seem to be very grave apprehension at the moment regarding the rise in the price of agricultural products, but that the question of wheat prices had to be very carefully watched. It might be possible, or even necessary, he added, for the Central Government to intervene at any stage if there was a tendency for a rise in the price of wheat."

"The wheat problem continued to grow in seriousness. The reduction of the import duty to a nominal level on September 30, 1941, had little effect. On November 2, a Press Note was issued warning traders that the Government considered Rs. 4-6-0 per maund at Lyallpur and Hapur to be a suitable maximum price and that traders trading at higher rates would be doing so at their own risk. But as this and other warnings were of no avail, on December 5, 1941, a definite order was issued fixing the maximum price for wheat at Rs. 4-6-0 per maund at Lyallpur and Hapur, and authorising Provincial Governments to determine the maximum price at any other place having regard to the normal relation between prices at such places and at Lyallpur and Hapur. On December 31, 1941, a Wheat Commissioner for India was appointed. In the hope of stimulating activity in the marketing of the new crop, the maximum prices were revised at the end of March, 1942, so as to stand at Rs. 5 per maund at Lyallpur and Hapur and Rs. 5-4-0 per maund at Sind centres. On April 30, 1942, the Wheat Control Order was issued; and thereafter movements of wheat by rail from producing Provinces to consuming areas were regulated by permits issued by the Wheat Commissioner. Movements within producing provinces were left to be controlled by the Provincial Governments. The Central control on wheat prices was, however, withdrawn in January, 1943, and the Provincial Govern

ments also withdrew their control and the powers of the District Magistrates to fix the prices of wheat were cancelled."

"The Fourth Price Control Conference was held on February 6 and 7, 1942. At this Conference it was recognised that the accommodation of traffic to the most efficient use of the limited transport facilities available was a consideration of great importance and that control over distribution in co-ordination with transport arrangements might have to take precedence over control of prices. A distinction was drawn between commodities (like wheat) which were subjects of all-India distribution and others (like rice and bajra) which broadly speaking, had to move only within certain zones. To deal with the latter, the idea of Regional Price and Supply Boards, to work in close relation with Regional Transport Boards, was evolved."

"The Fifth Price Control Conference was held on April 7 and 8, 1942. The vital importance of linking control over distribution with price control was now fully emphasised and the Conference recommended the introduction of the licensing of whole sale dealers (preferably established dealers) by Provincial and State Governments, which would enable those Governments to maintain information as to the course of distribution of the various foodgrains, and would minimise the evil of hoarding. It was left to the discretion of the Provincial Governments to decide whether retail dealers should also be licensed. The Food Grains Control Order was issued on May 21, 1942, giving powers to Provincial Governments to license wholesale dealers in foodgrains and to require returns of their transactions. By another order issued a few days later, an attempt was made to check speculative dealings which were believed to be partly responsible for the pressure of prices against the prescribed maximum even so early in the season."

"The Sixth Price Control Conference which was held in New Delhi on September 7 and 8, 1942, reviewed the working of wheat and sugar controls and discussed various sug-

gestions to improve the existing machinery for control of foodgrains. Opinion was generally in favour of institution of some system of co-ordinated purchase of surplus wheat and other foodgrains to meet the requirements of the military and the deficit areas. Views were also exchanged on certain problems connected with the standard cloth scheme and yarn control. The Conference recommended that the prices and supplies control machinery at the centre should be further strengthened by the creation of a Civil Supplies Advisory Council and a Central Price and Supply Board. The former will consist mainly of the representatives of trade and industry and its functions will be to advise the Central Government on all matters connected with prices, supplies and distribution of commodities. The functions of the other Body will be to advise the Central Government in regard to the formulation of a programme of movement of supplies and to advise the Provincial Governments in regard to the principles governing the fixation of secondary prices in relation to basic prices. It will also scrutinise the data received from the Regional Price and Supply Boards and from Provinces and states in regard to the surpluses and deficits in different areas and will co-ordinate the requirements of the different areas in respect of food grains. The Conference also recommended that as Fair Price Shops are likely to exercise a salutary effect on retail prices, such shops should be opened wherever possible in poorer localities by Government, Local Bodies or with the assistance of Government, by approved trade agencies or philanthropists."

The Central Government fixed the wholesale price of wheat in Lyallpur and Hapur, passed orders enabling the provincial governments to take action, and gave advice on price control measures, but price control has been a provincial responsibility and has been operated by each Province in its own way. In most of the provinces there is a Price Control Department which supervises and

co-ordinates the price control work and the district magistrate is the local authority for fixing prices, licensing the retail and wholesale dealers, and controlling stocks and the movement of foodgrains, though from time to time the provincial governments also pass orders applying to the whole province at once. There is no co-operation between the different Provincial Governments and a very poor co-ordination is achieved by the Price Control Conferences and the Commerce Department of the Government of India.

Why Price Control Failed. One of the chief causes of the ineffectiveness of price control has been the irregularity of supplies to the retail dealers. A price is fixed on the assumption that a certain supply will be available for sale, and if this supply is not forthcoming the controlled price becomes impossible to enforce. In India the control has given rise to some amount of uncertainty in the mind of both the consumers and the sellers. The consumer in his anxiety about the future begins to hoard foodgrains. The seller, dissatisfied with the fixed price, holds back the supplies in the hope of selling them at a higher price in the black market. The cultivator, who is both a seller and a consumer, is not anxious to part with his produce at the harvest time except when he is in need of money. All this reduces the available supply. The result is that the controlled price gets out of touch with reality and cannot be enforced. Price Control has often been shattered in India not so much because the seller tries to charge a higher price in the regular

market but because he does not sell either on account of his having no stocks or his deliberately holding them back. Finally, due to the war there is a great strain on our transport system and supplies are liable to get short in particular areas because of delay in consignments. Supply temporarily becomes less than the demand and all the buyers cannot obtain the commodity at the fixed price. As a result black markets come into existence where the sellers charge a higher price. This further reduces supply and a vicious circle is formed.

The more recent Price Control Conferences were not unaware of these possibilities but their recommendations have not been fully enforced partly because of lack of adequate administrative machinery and partly because the different provinces have sometimes followed contradictory policies. The various governments have very much relied on fear of punishment and fine to discourage the shopkeepers from disobeying price control orders. The consumer is encouraged to report the matter to the police if he does not obtain supplies at the fixed price. Prosecutions and punishment, however, have not produced very satisfactory results because the shopkeepers who make good profits by selling in the black market, can afford to pay a fine or even go to jail. The fear of punishment does not help matters when there is an actual shortage of supplies. Nothing *effective* has so far been done to regularise supply. A shopkeeper is guilty if he indulges in profiteering but he cannot be held responsible if he is unable to sell at the fixed price.

because he does not get supplies from the wholesaler or the producer. We have to devise means to ensure sufficient and regular supplies to the retailer.

One alternative suggestion is that government retail shops and municipal grain stores should be opened to sell the controlled foodstuffs. This suggestion has also been put into practice in some places. The underlying idea is that through these shops the government can enforce the fixed prices and control the flow of supplies to the market. This method, however, is not likely to prove successful for two reasons. A few shops will not suffice and if consumers are to get their supplies without undue difficulty a large number of such shops will have to be opened in each locality. This is bound to increase the administrative cost very much. These shops by their very nature cannot be self supporting because, after payment of transport and other dues, the controlled price is not likely to leave any balance. There is even a possibility of an actual loss. In view of this huge expenditure of money, and a subsequent burden on the tax payer, the cost may not be worth the gain. Secondly, even if the cost consideration is set aside, the Government and municipal shops will replace the petty shopkeeper. He generally belongs to the lower middle class and it will mean great hardship if this poor man is elbowed out because of State activity. There is no justification for creating this hardship.

Another suggestion, to which the last Price Control Conference also gave its support, is that the

existing channels of trade should be maintained but the wholesale and retail dealers should be licensed. This, it is explained, will enable the government to control the activity of these middlemen. The licensing system works satisfactorily so far as the wholesale dealers are concerned but it breaks down in the case of retail shopkeepers. This for many reasons. The system of licensing involves the issuing of vouchers and maintenance of exact accounts for all sales transactions. But a vast majority of petty retail dealers are incompetent to do so because they are thoroughly illiterate. They cannot engage paid accountants because that costs too much money, which their turnover does not justify. Some retail shopkeepers keep accounts but their system is so thoroughly obsolete that it is almost impossible to check these accounts and arrive at any sensible conclusions. Secondly, licensing assumes that if the conditions of sale are violated the licence will be cancelled and issued to some one else. But all retail shopkeepers are alike and cancelling someone's licence and issuing it to someone else does not improve the net situation. This greatly reduces the effectiveness of licensing. Finally, the administration of this system cannot be left in the hands of the police and civil officers because this is a specialised work and these officers are already overworked. If licensing has to be made successful a separate staff of price control officers will have to be appointed. This makes the licensing system costly and this is a point on the debit side.

In the last analysis, the effectiveness of price

control measures will depend on the success with which production is increased and controlled. In the case of foodstuffs, where the problem of price control is most urgent, we have to make the 'grow more food' campaign successful in order to be able to control the prices. Price control is made ineffective because of a shortage of supplies. If more food is grown, there will be a larger quantity available for sale and thus one serious cause of trouble will be removed. If regular supplies are available, the consumer will not have much cause for anxiety about the future and hoarding will be discouraged. Moreover, if the consumer can obtain supplies in the regular market at the controlled prices, he will not be prepared to pay a higher price in the black-market, so that the shopkeepers will have no inducement to hold back the stocks and refuse to sell. The availability of larger quantities of foodgrains, apart from minor administrative difficulties, will solve the problem at one stroke. Further, we have to realise that prices tend to rise not only because of profiteering and deliberate holding back of stocks but also because during a war the greater expenditure by the state increases the money in circulation, as we have already discussed above. The 'grow more food' drive will increase supplies. More food will be grown partly at the cost of other commodities and partly by taking new land under cultivation. The net increase in the quantity of commodities now available will to some extent counterbalance the increase of money in circulation. Prices will, as a consequence, rise less than before. This

will help the price control policy. It may be mentioned that the 'grow more food' idea is not as impracticable as it might appear on the face of it. In India we at present produce large quantities of unwanted commercial crops such as sugarcane and cotton. These crops have suffered from overproduction, and it will at once solve two problems if food crops can to some extent replace them. There is also the possibility of taking some fallow land under cultivation and increasing the productivity of land by a more intensive cultivation.

RATIONING

Petrol was being rationed in our country from the very beginning but in view of the fact that price control could not be made effective, and there was much hardship, the Government of India proposed, early in 1943, that the Provincial Governments may introduce rationing of foodstuffs. Some Provincial and State Governments have imposed restrictions on the ownership and movement of foodgrains, schemes of rationing have been prepared, and a census of consumers has been taken but as yet systematic rationing has nowhere been adopted, though it was originally expected that Bombay and U. P. would enforce it by the end of April, 1943.¹

Apart from other considerations, price control measures could not check the activity of the 'black

¹ A partial rationing of food grains commenced in Bombay city on May 2, 1943, and some sort of rationing has been enforced in Indore, Bhopal, and a few other towns.

markets,' where the commodities were sold at unduly high prices, so that the poor suffered the greatest privations, especially after the fall of Burma when supply for civil use was greatly reduced. It then appeared that the only way of securing an equitable distribution of available supplies was through rationing.

*Comparison with Price Control.*¹ Rationing has this in common with price control that it safeguards the interests of the poor because otherwise the poor would probably get no commodities on account of the high prices which they cannot afford. But the two systems of control have some significant differences. Rationing aims directly at economising the use of commodities which are limited in supply while price control helps to encourage consumption because in its absence rising prices would have discouraged it. Secondly, price control aims at reconciling the interests of the different sections of society while rationing can bring about no such result. Price control in India, for example, has deliberately aimed at safeguarding the interests of the cultivator and the consumer of food grains as against the middleman. In the beginning, prices of some food grains were fixed in the retail market so that the consumers may not be victimised. Later on the wholesale prices at the harvest time were also fixed in order that the cultivator may not be exploited, because past experience showed that the

¹ Cf. The author's leading article on "Rationing and Price Control" in the *Capital* dated June 25th, 1942.

middleman paid low prices to the cultivator at the harvest time and subsequently reaped good profits in spite of price control in the retail market. Now the cultivator also gets a fair price. Similarly efforts have also been made, through price control, to protect the consumers of such commodities as sugar, matches, paper, and cloth against the producers who naturally desire to make as much profit as possible. It may also be noted that price control keeps down the cost of living of industrial workers and thereby helps in maintaining industrial peace. Rationing does not aim to secure these results. Finally, rationing presupposes exact information and a rigid government control on the wholesale and retail shopkeepers. Price control on the other hand, is possible even if control is partial, information incomplete, and the shopkeepers illiterate. Price is fixed either on the basis of costs of production or on the basis of a price which prevailed at some date in the past. The desire is to leave a fair margin of 15 to 20 per cent to the producer, and even rough estimates prove satisfactory. Prices have actually been fixed in India without much control on the shopkeepers. Once the price is fixed, it is in the interests of the consumers that a higher price is not paid and if necessary the consumers do not hesitate to report the matter to the police. A few prosecutions on the basis of such complaints discourage the other shopkeepers from attempting to violate the rules. In this way the system works fairly efficiently even in the absence of complete control. This, however, is not the

case with rationing which involves a more complete control on the activity of buyers, sellers, and producers.

In the case of rationing a control on supplies is of vital importance because otherwise rationing can have no sense. In the case of petrol, because the production is concentrated in few hands and selling is organised in retail agencies, the government can easily control the sale of the commodity. But in the case of foodstuffs, because there are a large number of small scale producers who are distributed over a vast area, the only possibility of successful control is through outright government purchase. This is not an easy task when we realise the magnitude of the problem. Secondly, government policy has to be so framed as to attract the sale of food grains by the cultivators and to ensure their free movement to the consuming centres. This can be done only if sufficient public confidence is gained for the proposed scheme. If the people are convinced, rightly or wrongly, that the control scheme is either temporary or only safeguards sectional interests, it is likely to make matters worse. The scheme, in order to be successful, has to prevent the black markets from flourishing. Finally, one of the most difficult tasks is to organise a smooth distribution of the rationed commodities. It has to be transported from the surplus (producing) to the deficit (consuming) areas and there to be distributed between the wholesale and the retail dealers. The final stage of distributing it to the consumers by means of coupons is decidedly the most difficult

stage and the success of the scheme depends upon it. It may very well happen, as is likely to be the case with the proposed schemes in the U. P. and Bombay, that though the scheme may be theoretically satisfactory its working may give rise to serious administrative and practical difficulties which may shatter it.

The U. P. Scheme. The U. P. Scheme of Food Control and Rationing is the most comprehensive and logical of all the proposed ones, and we shall study it in some detail. The sanction behind the scheme is the U. P. Food Grains Control Order 1943, published in a Gazette, Extraordinary issued on March 11, and enforced¹ from March 25th, 1943. According to the scheme the purchase, sale, storing, and transportation of the regulated food grains—wheat, wheat flour, barley, gram, bajra, juar, rice, maize and the combinations and edible products of these eight food grains—are controlled. The cultivator is *not forced* to sell his produce and he can freely store it either for personal use or for sale subject to the condition that he can store it in the town or village where it is grown or where he resides provided that such a place is not a 'regulated town.' But once the food grain is sold by the cultivator it comes within the purview of the Control Order.

The degree of control differs with the nature of the market which has been divided into three categories: (1) the 'regulated towns,' (2) 'purchas-

¹ The scheme was withdrawn soon after it was enforced and only few of the provisions were put into practice.

ing centres' and (3) 'recognised markets.' Towns of sufficient size or sufficient importance which makes it necessary for the government to take special measures in order to ensure required quantities of food grains, as also their regular supplies, come under the category of regulated towns. Under the Control Order 25 towns¹ in the U. P. have been declared regulated towns. The public will be allowed to purchase food grains in these towns only on the basis of coupons and from licensed retailers with whom their names will be registered. Each consumer (head of a family) will be issued an identity card indicating his name, address, and the shop at which he is registered and the number of persons for whom he is entitled to buy. Each adult in his family will be allotted one unit and each child under 12 years of age half a unit. The value of the unit in terms of food grains will be determined from time to time in accordance with the stocks available but to start with, exclusive of *dal*, it will be ten chhataks. The proportion of the different food grains constituting this ration will be determined from time to time depending on the local stocks. On presentation of their identity cards the consumers will be issued coupon books by the A. R. P. Organisation and they will obtain their supplies, on deliver-

¹ These twenty-five towns are: Dehra Dun, Mussoorie, Saharanpur, Haradwar, Meerut, Aligarh, Agra, Muttra, Bareilly, Moradabad, Shahjahanpur, Nainital, Almora, Rani-khet, Allahabad, Jhansi, Benares, Mirzapur, Jaunpur, Gorakhpur, Lucknow, Fyzabad, Farrukhabad, Etawah, and Cawnpore.

ing the coupons, from the particular retailer with whom their names are registered. In addition to these basic provisions special arrangements will have to be made for the supply of animals, halwais, restaurants, boarding houses, messes, casual visitors, temporary guests, and beggars. The government of course does not guarantee the supply of food grains indicated in the ration card. All that it undertakes is that, if supplies are available, they will be equitably distributed. The district magistrates will be responsible for the distribution of supplies to the licensed retailers from the stocks held on behalf of the government. And in order to prevent black markets from functioning it has been provided that all grains brought into a regulated town must be taken straight to the market and sold there to a person holding a licence to store it for ultimate delivery to government. No one can sell or store the controlled food grains in excess of five maunds at any one time without permission.

The purchasing centres are the bigger mundis where food grains will be purchased on behalf of government in order to supply the deficit regulated towns. As all towns have a grain market for local consumption to which grain is brought from the surrounding country by cart, the mundis of all regulated towns will also be purchasing centres. The buying, selling and storing of food grains in the purchasing centres will be controlled by government licence and all stocks will be held in behalf of the government, who will pay the customary charges at the time of taking delivery. A price based on

ordinary commercial considerations will be fixed for each controlled commodity at each purchasing centre. The government will also pay the ordinary storage charges and interest at the rate of 6 per cent per annum. When the grain is actually taken over by the government, 90 per cent of the price will be paid at once and the balance after the quality has been tested at destination.

Recognised markets include all places other than purchasing centres where trade in grains, is carried on. All such existing markets will be recognised, defined, and listed. Persons who wish to keep a stock of grain in the recognised market will have to take out a licence to do so, otherwise no licence will be required for dealing in a recognised market. The *beopari* who brings grain from the village in small quantities or trades in grain between small markets and the purchasing centres will thus be left uncontrolled but he will automatically be forced to come to a market to deal with a licensed buyer.

The province has been divided into six regions.¹ The movement of crops within a region, from bigger mundis to deficit regulated towns, and between regions is to be controlled by the Regional

¹ The six regions are: (1) Meerut region comprising the Meerut Division (2) Agra comprising the Agra Division (3) Moradabad region comprising the Rohilkhand and Kamaun Divisions (4) Lucknow region comprising the Lucknow and Fyzabad Divisions (5) Cawnpore region comprising the Allahabad and Jhansi Division and (6) Benares region comprising the Benares and Gorakhpur Divisions.

Food Controllers. The U. P. Food Grain (Movement) Control Order forbids export of controlled food grains from one place within the U. P. to any place outside the province by rail, road or river except with permission. The Order also directs that no person, other than the district magistrate or the Imperial Bank of India shall be given delivery of any consignment of food grains at a railway station unless he produces the railway receipt duly endorsed by the marketing inspector.

The scheme will be administered by the Secretary to the Government in the Civil Supplies Department who is also the Director of Food Supplies for the province. He will have the assistance of a financial deputy secretary and a provincial marketing officer as adviser on all technical matters. For the purpose of detailed supervision of the scheme and in particular to arrange for the movement of grains from the purchasing centres, where the government takes them over, to the regulated towns where it distributes them, there will be six Regional Food Controllers. Each Regional Controller shall have as his technical adviser a regional marketing officer who will be responsible for the work of the marketing inspectors. In each regulated town it will be necessary to have marketing inspectors to test the grain on delivery and look after it when it is handed over to the district magistrate. The marketing inspectors will also be required to supervise the working of the scheme at the purchasing centres to check arrivals, stocks etc., and generally to act as government's agent in the

centre. Smaller centres may be grouped together for this purpose. The marketing staff in each region will work immediately under the regional marketing officer. The district magistrate shall be the licensing authority in respect of retail licences in the regulated towns and in the purchasing centres which are at district head-quarters and the Regional Controller shall be the licensing authority in respect of all the other licences.

Criticisms. It must at once be admitted that the above scheme has been formulated with great care. The cultivator is not forced to sell his grain, all the existing channels of trade have been maintained as far as possible, and public co-operation is invited at every stage. The administrative side has not been neglected and the duties and responsibilities of different officers have been clearly defined, but all this careful preparation has not saved the scheme from certain administrative and practical difficulties which are almost fundamental to any such scheme so far as our country is concerned.

The first difficulty which faces this scheme is that of the cultivator's attitude, because if sufficient quantity of grain does not come to the market rationing cannot be made successful because of a shortage of supplies. The cultivator is not only a producer of food grains, he is also a consumer of the commodity which he produces. This element of "reserve" demand makes the amount that can be expected to come to the market very uncertain. Moreover, the financial condition of the cultivator has definitely improved in recent years especially

in parts of the U. P. and the Punjab and he does not feel the necessity of bringing his crop to the market at the harvest time. This tendency has been further accentuated because the control scheme has given rise to an uncertainty (about the future) in the mind of the cultivator who, therefore, keeps a larger amount for personal use and holds back the spare supplies in the hope of better prices in the future. In other words, he brings small quantities to the market only when he is pressed for funds. In most cases, therefore, the grain trickles to the market in small quantities at irregular intervals. It is this slow nature of the transaction which makes government acquisition for the crop difficult. It is true that the government will come in possession of a substantial portion of the crop harvested and the middleman will be almost eliminated but this partial acquisition may not suffice for the needs of the cities. Once again, therefore, the scheme is in danger of breakdown because of a shortage of supplies. It is apparently not possible, under the present day political conditions, to force the cultivator to sell his crop at once. It is, therefore, essential to devise means of inducing him to sell a major portion of it at harvest time.

The framers of the U. P. Scheme fully realised the dangers to which uncertainty and lack of confidence give rise. The black markets thrive on the uncertainty about the future supplies and prices. If the black market sellers become sure that the government will succeed in supplying the *required* quantities at *fixed prices* in the regular market they

would not push supplies into the black market. The consumers of course would not pay higher black market prices if they were sure of getting supplies in the regular market at fixed prices. Moreover, the cultivators would not withhold supplies if they expected the government control to be successful, because there is sense in hoarding stocks only if it is hoped to realise higher prices in the future. It must be admitted that, rightly or wrongly, the Food Control Scheme has made the public suspicious and people impute baseless motives to the government. The point, however, is not whether what the public thinks is right or wrong, but that this defective thinking leads to a shortage of supplies, making rationing and food control exceedingly difficult, if not impossible to enforce.

It is not only the acquisition of the stocks but also their final disposal which causes serious difficulty. As we saw one cause for the failure of price control was that the activity of the licensed retailers could not be controlled. The same difficulty persists, even more intensively, in the case of rationing. Each consumer will be registered with a particular shopkeeper (licensed) from whom *alone* he will get his rations. This gives rise to the familiar difficulties of monopoly. It is true that the price at which the rations will be sold is fixed so also is the quantity to which each buyer is entitled. But as happened in the case of A. R. P. depots and price-controlled (licensed) shops, the scheme does not ensure the specified quality to the consumer.

A plenty of dust and kankar is liable to be mixed with the food grains and, if one wants to live alive, that has to be purchased. Moreover, the licensed (monopolist) shopkeeper does not feel the necessity of being polite and courteous to his 'client' because under the scheme he cannot buy elsewhere. If competition prevailed and the consumer could buy his requirements from any one of the many shops, he would shift himself to the 'best' shop, but now this is not possible. It may appear that these are merely 'academic' points but this is not the case because in real life they offer the greatest difficulties. Mere price is not the only factor to be controlled but the quality and the conditions of sale have also to be supervised, which the rationing scheme fails to do. It may be pointed out that there are marketing inspectors to supervise the quality and conditions of sale and the consumer can always lodge a complaint with the proper authorities. In our country, unfortunately, both these safeguards have proved useless. The consumer does not have the time and inclination to lodge complaints which, he knows from past experience, instead of bringing favourable results put him in a false position. The inspectors are far too few for doing the job satisfactorily and in the past they have not shown a high sense of duty. We have, therefore, to conclude that though the rationing scheme has given rise to monopoly conditions it has done nothing effective to control them.

Finally, there are a number of practical difficulties in operating the scheme. In our country

no statistical information is available about the requirements of the people and it is not possible to undertake a census at the present time. The rationing authority, therefore, does not have an objective test on the basis of which it could proceed to distribute the available supply. In the U. P. it has been proposed to give each consumer 10 chataks of food grains. Obviously, for a vast majority of the working population this is thoroughly insufficient, even when full account is taken of the sacrifice which all of us have to make in a war emergency. Moreover, ten chataks consists of different food grains, whose proportion may change from time to time, and it is a difficult job for the consumer to get sufficient flour by grinding this small quantity even if the rations are given for one month at a time. Another practical difficulty is the issue of supplementary ration cards for guests, temporary visitors, and pilgrims. The servants, beggars, and the shifting population of homeless have also to be provided for in the regulated towns. These difficulties are not insurmountable but they give rise to complications. In the end we may note that the Food Control Scheme has inflicted a very heavy blow on the wholesalers, the retailers, and the people who traded in the controlled food grains. In the original scheme the wholesaler could not purchase food grains outside his district or town but in the case of deficit regulated towns this did not give him enough supplies. This consequently resulted in a shortage of stocks. It, therefore, became necessary to relax the restrictions and to

allow the wholesaler to purchase in any market within his region. In any case, the income of the wholesalers would substantially decline because commission paid by government at the rate of Rs. 2 per cent would bring only a small income. The work of these wholesalers as commission agents for people who traded in food grains between one town and another has ceased because the movement of food grains is now controlled by the government and this latter category of businessman has entirely disappeared. The retailer has also suffered because it is not possible to license all the existing retail shopkeepers under the rationing schemes. In Allahabad alone there are some 950 retailers and it is proposed to license not more than 200 to sell the rationed foodstuffs. The remainder will, therefore, cease to exist. If we consider all the twenty-five regulated towns, a very large number of retail shopkeepers will be thrown out of work. This is a serious consequence arising from the Food Control Scheme and something has to be done to tone down its effect.

CHAPTER IX

POST-WAR RECONSTRUCTION

A study of post-war reconstruction, by its very nature, is highly speculative. It is not possible to visualise the post-war economic conditions with any degree of correctness and the experience of the past may prove useless. It may, however, be expected that the boom conditions now prevailing will come to an end and Indian industry, as elsewhere, will be faced with depression and chaos. Many factories will close down, the output of most industries will contract and those that survive the upheaval will be faced with serious competition from foreign producers. Equally difficult will be the transition in the field of finance, currency, and international trade. The post-war problem will be difficult all over the world and its nature and solution will depend upon the nature of peace and the views of the victors, both of which are very uncertain factors. In our case the problem is further complicated by foreign rule and the disparity between the official view and nationalist aspirations.

This is, however, certain that the war will leave a permanent effect on our industrial system. As we have already noticed, some existing indus-

tries have developed new lines of production and some entirely new ones have come into existence. Most of these are likely to continue to exist even in the post war period. Under the stress of war, the method of production and business organisation of some industries have been rationalised and this will strengthen their competitive power in the post-war period. Further, due to various government schemes and the efforts of industrialists a large number of labourers have been technically trained and will be able to assist the industrial development of our country not only by supervising work but also by imparting technical training to other labourers. We were handicapped by a shortage of skilled labour in the pre-1939, period and very frequently bottle-necks were reached because the necessary amount of skilled labour was not available. In the future this is not likely to happen. Finally, it is the general attitude of the public, the workers, and the industrialists towards scientific research and mechanisation that to a large extent determines the degree of industrialisation that a country can achieve. The war has been successful, to some extent, in educating public opinion and it is our hope that the country may shake itself out of the medieval attitude of distrust towards machinery and industrialisation. This will form the stepping stone to proper and faster industrialisation of our country.

The post-war period will give rise to many complicated problems and a detailed study of even some of them needs a separate volume. In this

chapter we shall make reference to only one problem, that of industrial unemployment. A large part of the fighting forces will have to be disbanded and, although some of the soldiers will revert back to agriculture, work will have to be found for most of them. Secondly, the expanded war demand will come to an end and output will contract. This will throw many skilled and unskilled labourers out of work. Consequently, there will be a severe competition between labourers to secure the available jobs. Finally, the increased mechanisation of industry, which is bound to be a necessary feature of post-war industrialisation of our country, will throw many workers out of employment.

Unemployment is bad because it leads to starvation and much human suffering. Not all the unemployed industrial workers can resort to agriculture or take shelter with earning members of their family. In our country trade union funds are poor and not all the labourers are members of trade unions and though there exist some charitable institutions they are far too few in number and have meagre resources. The net consequence, therefore, is starvation of the industrial worker and his family if the earning member becomes unemployed. This suffering is intolerable when with a little thoughtful organisation, it can be greatly reduced. Unemployment also leads to the instability of industrial labour. Workers when they get out of work, either permanently or for short stretches of time, revert back to their village homes and this prevents a labour force depending exclusively upon

industry from coming into existence. This gives rise to many evil consequences. Finally, unemployment strikes a blow at industrial production as it leads to a reduction of purchasing power in the hands of the consumers. They have less money to spend and the market for industrial (and other) commodities contracts and this leads to further unemployment. A vicious circle is thus created.

The solution of unemployment will depend upon the nature of post-war political system in our country. If, as should be expected, the capitalist system continues to prevail, it would not be possible to eliminate unemployment altogether. Some unemployment is bound to remain. As a matter of fact the working of the capitalist system involves the existence of unemployment. All the remedial measures can only reduce the number of the unemployed and can to some extent elevate their suffering, but substantial unemployment still remains. It is only the soviet system that has been able to overcome unemployment successfully because in that country the state compulsorily provides work to all and pays for it. It is possible that all are not employed in the best possible way and with some readjustment, it might be possible to get more work out of some, but all those who are fit to work are employed.

In India much can be done even if it remains a capitalist country because we are still very backward and have not made much use of devices which were being followed by the more advanced capitalist countries of the west before the war. In the first

place, we can make use of a public works programme to secure an easier and more smooth transition from war to peace economy. The individual capitalists cannot be expected to keep their labourers employed for long if the demand for their commodities contracts. They exist for profits and so long as we owe allegiance to the capitalist system we cannot blame them. But the government can and should take a broader view. There are, however, two difficulties in the way of a public works programme. It cannot be undertaken all at once and there must be a systematic scheme ready with all the necessary sanctions, so that it may be introduced at the right moment. It may be emphasised that delay and hesitation may prevent the scheme from giving the desired relief. The second difficulty is of repayment of loan. Not all public works are of a self-liquidating type and in those that are not the problem of paying back the capital (and interest) arises. But these difficulties are not unsurmountable. If we are sincere in our desire, it is possible to draw up a public works programme just now so that it may be introduced as soon as hostilities cease. We may so adjust the programme that due importance is given to self-liquidating public works but as all public works cannot satisfy this condition, provision for repayment will have to be made by heavier taxation in the boom which follows the post-war depression. It is these public works which will give employment to some of the labourers who are dismissed from industry. This

is bound to give some relief.

Secondly, in order to make adjustments as smooth as possible, we will have to make use of Employment Exchanges. It is true that these Exchanges cannot create work if it does not exist but they can surely make the adjustment more smooth. These Exchanges will keep a record of the requirements of industry and will also register the needs of unemployed people. If these Exchanges operate efficiently they can successfully direct labour to the right place and thus prevent the formation of "pockets" of unemployment in some parts of the country when there is an actual shortage of labour elsewhere. This function they have long performed in western countries. In India in the post-war period, however, the problem will be more complicated and care will have to be taken that in the chaos, that will inevitably result, as few people as possible die from starvation. All the unemployed will not be in the same condition because some of them will have earning members in their family, and for the time being, they can fall back upon these reserve resources, but there will be a large number of those who, when they are unemployed, will actually have to starve. As we have already stressed, it is a patent fact that either trade union funds do not exist in our country or if they do, they are too meagre. Moreover, the average factory worker cannot save any money so that he is faced with great distress when thrown out of work. The Employment Exchanges can to some extent solve this problem by considering not only the fact of unemploy-

ment but also the possibility of getting such reserve help. The Exchanges will first get work for those unemployed who have no source of help and only then the claims of the other unemployed will be considered. This is not a happy solution but this is the best we can hope for in the conditions which are likely to prevail in the post-war world. But as yet we have no Employment Exchanges in our country and the employers of labour do not seem to be in a mood to submit to the strict discipline which the use of these agencies involves. It shall, therefore, be necessary to pass legislation making it compulsory for producers to recruit their labour through the Employment Exchanges. If any particular worker or set of workers proves inefficient the employers, will have to refer back the question to the Exchange concerned. It is only then that the system can work successfully. It is true that these Exchanges will take away some freedom of the individual producers, some delays will occur, and substantial amounts of money will have to be incurred. But in the interests of the labouring population these sacrifices are worth making.

Finally, it is also possible to make the transition from war to peace economy more gradual. This will surely reduce the intensity of the problem. In the post-war period the surplus money will have to be withdrawn from circulation, contracts placed by the Supply Department and other agencies will come to an end, and the inflated war demand for many goods will cease. This will mean the closing

down of many factories. Many workers will be thrown out of work. It cannot be denied that these dismissals will be necessary but one fact has to be clearly realised. After the first shock of post war depression the conditions, as has always happened in the past, will gradually improve and will ultimately result in an industrial boom. The problem is to bridge this gap of depression. This should be possible by controlling the rate of dismissals so that some of the unemployed may be reabsorbed in the reorganised industry. We will have to take care of two things. The work should not be stopped suddenly, contracts cancelled abruptly on the cessation of hostilities, and labourers and soldiers dismissed from service all at once. This will only make the confusion worst confounded. We have to prepare ourselves before hand to continue on a war footing even for some time after hostilities have ended. Secondly, the industrialists have to be convinced that the post war depression, like all the depressions in the past, will be temporary and will not call for panic. In other words the demand for goods, though it will go down for a time, will again revive after a time. This leads us to the conclusion that wholesale dismissals and stoppages of work should not take place. Production may be continued at a lower tempo in the hope that demand will soon revive. It is true that some purely war industries will have to cease work, but in some cases it will be possible to convert them to peacetime requirements and, though such conversions will take time, it is possible to expediate

them. If all this is done the post war unemployment problem will not become as acute as is otherwise expected.

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